

## TITLE PAGE

### RESIDENTIAL PROPERTY TAX IN IRELAND

A STUDY OF THE RECOMMENDATIONS OF THE THIRD COMMISSION ON  
TAXATION TO EXTEND ANNUAL TAXES ON RESIDENTIAL PROPERTY TO  
PRINCIPAL PRIVATE RESIDENCES.

Dissertation submitted in partial fulfilment of the requirement for the MA in Accounting  
in Letterkenny Institute of Technology.

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Submitted to Mr Paul Mc Devitt, Research Supervisor :  
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## DECLARATIONS

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## Abstract.

The Report of the Commission on Taxation 2009 recommends the introduction of an annual property tax on principal private residences while at the same time zero rating stamp duty on the transfer of principal private residences.

The objective of this research is to determine if a combined system of a positive rate of stamp duty and an annual property tax would better achieve the objective of broadening the tax base with an equal degree of fairness and efficiency

A search of the literature was carried out. Interviews with commission members, experts in the area of stamp duty, local taxes and labour mobility were undertaken

The research established that stamp duty is an efficient tax but is not sufficiently broadly based leading to unfairness. The annual property tax recommended by the Commission on Taxation is well constructed and in terms of fairness and efficiency compares favourably with similar taxes used in EU peer countries.

The recommendation is that stamp duty on principal private residence should remain at a positive rate but that the base should be broadened by the removal of exemptions.

The rate for principal private residences should be a reduced rate.

The annual property tax as recommended should be introduced with some adjustments to the rate to reflect current economic circumstances.

Part of the income from the tax should be used to fund local authorities to establish a link between the tax and services provided.

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## **Chapter 1**

### **INTRODUCTION**

#### **1.1. Prologue**

An annual tax on residential property is a normal feature of the tax base in EU Countries as illustrated in Figure 2.1. Ireland conformed to this pattern up to 1978 and indeed prior to 1969 had very onerous taxation provisions on residential property.

According to the Report of the Commission on Taxation up to 1969 all residential property ownership was subjected to income tax, under Schedule A, on the basis of an imputed rental value. Mortgage interest was deductible against this charge and only this charge. (Pg 156)

A further local charge was applied to residential property, in the form of domestic rates. This was a charge levied by the local authorities, where the residence was situated, on the basis of the rateable valuation of the property. The charge was unpopular as the valuation basis was out of date and local authorities increased rates at amounts which exceeded the increase in income and inflation. Domestic rates were abolished in 1978. (Pg 156)

An annual property tax on residential property was reintroduced in 1983. This was assessed on the basis of house value and earnings. At no time did the mount of properties assessed exceed 20,000. It was accepted as a failure and was abolished in 1997. (Report of The Commission on Taxation, 2009, Pg 156-157)

Between 1997 and 2009 there was no form of residential property tax in Ireland. Responding to the deteriorating economic situation in 2009 the Irish government

introduced a residential property tax, at a flat rate of €200 per property, on second homes and investment property. This is the non principal private residence tax (NPPR) . This tax has been a resounding success, with compliance and collection well in excess of the amount budgeted. (Melia, 2010 a)

At the time of writing there is a vigorous debate in Irish media on the likelihood or not of the extension of taxation to principal private residences. If such a decision is taken, it would be consistent with the recommendations of the Third Commission on Taxation established in 2008.

## **1.2. The Commission on Taxation-2008-2009.**

The commission was established in 2008 pursuant to an agreement between the coalition partners then in government. The brief of the commission included issues on carbon taxes and environmental taxes like water charges. Its brief also included a requirement to make proposals to re- balance the Irish tax system, which would keep Ireland a low tax economy while ensuring a greater degree of fairness. (Report of The Commission on Taxation, 2009, Pg 26)

When the commission commenced its deliberations in 2008 the Irish economy was feeling the first impact of recession and the question of rebalancing the tax base had become more urgent. The impact of recession was felt across all tax collection but impacted severely on taxes which were generated through property transactions notably stamp duty, where receipts fell by 26% between 2007 and 2008. See Figure 4.4.

The commission made a comprehensive report in 2009. It identified the principles which it applied in achieving the objectives set out in the initial brief, including the requirement to keep Ireland a low tax economy while providing a greater degree of fairness.

### **1.2.1. Broadening the tax base.**

In considering how this might be achieved the commission decided that broadening the tax base by ‘having multiple tax sources’ [would] ‘enable rates of tax to be kept as low as possible.’ (Report of The Commission on Taxation, 2009, Pg 48)

The Commission does not define broadening the tax base in any more detail.

Broadening the tax base is different from simply increasing taxes, which can be done by increasing rates. In broadening the tax base the legislature can amend existing tax legislation and take more taxpayers into the base by reducing exemptions or reliefs. It can also introduce new taxes as a means of broadening the base.

### **1.2.2. Principle of Equity.**

The Report of the Commission on Taxation identifies equity in taxation as a core principle of taxation. It defines equity in taxation as the ability to pay the tax due. (Pg 2)

### **1.3 Recommendations of the Commission.**

The commission issued a number of recommendations. The recommendations, which are the subject of this research, are recommendations 6.2 and 6.3, which provide respectively that an annual property tax be introduced on all residential property with a number of limited exceptions and that at the same time stamp duty on the transfer of principal private residences be zero rated. The type of annual tax recommended is one based on the capital value of the property using a banded system.

That is a series of capital value bands would be put in place. All principal private residence owners within a band would be liable for the same amount of tax. Self assessment principles would apply.

#### **1.3.1. Rationale for Recommendation.**

The Report of the Commission on Taxation (Pg 159) states that the option of reducing stamp duty to zero for principal private residences and replacing the income stream with an annual property tax provides a more reliable stream of revenue, does not have a negative effect on labour mobility and does not deter home owners from trading down.

### **1.4 Overview of the Research Question.**

The Report of the Commission on Taxation (Pg 20) proposes the introduction of an annual property tax on residential property while at the same time zero rating stamp duty on the transfer of principal private residences. While this widens the existing tax base in that recommendation (6.2) extends the tax base by introducing a new annual tax on property, recommendation (6.3), which proposes the zero rating of stamp duty on the transfer of principal private residences narrows the existing tax base.

The question which this research seeks to answer is whether these recommendations of the commission succeed in meeting its stated objectives of broadening the tax base while keeping tax rates low, more fairly and efficiently than adopting a combined system of stamp duty and annual property tax

#### **1.4.1. Research Objectives.**

The research objectives are to establish answers to the following seven questions.

- 1) What are peer country norms in respect of this type of tax and is the proposal in line with current practice in peer group countries?
- 2) Does the existing stamp duty on principal private residences fail the tests of breadth of tax base, low tax rates and fairness and efficiency?
- 3) What consideration prompted the Commission to propose a narrowing of the existing tax base by zero rating stamp duty on principal private residences rather than maintaining or widening the tax base by reforming stamp duty?
- 4) Are these considerations supported by independent research and evidence?
- 5) What is current Irish experience on the effectiveness of existing annual charges on property and services?
- 6) Is the proposed annual property tax likely to provide a fair and efficient method of broadening the tax base?
- 7) Based on the findings from 1 to 6 above would a combined system of a positive rate of stamp duty and an annual property tax better achieve the objective of broadening the tax base with an equal degree of fairness and efficiency?

#### **1.5 Rationale for the Study.**

The Commission Report (Pg 158) has identified a need to broaden the tax base as a means of keeping tax rates low. It has identified also a need for a steady and predictable income stream in terms of taxation to fund necessary public services. . While the introduction of an annual property tax on residential property answers the requirement to

provide a steady and predicable income stream the decision to zero rate an existing tax on this sector reduces the tax base. The consequence of this may be that narrowing the overall base could result in annual property tax rates being pitched at a level, which is higher than required. If this happens it places a potentially excessive contribution to taxation on owners of principal private residences. This could be contrary to the requirement for fairness and impact on voluntary compliance rates. (Vlassenko, 2001)

### **1.6. Scope of Research.**

The research is confined to the implications of zero rating stamp duty and introducing an annual property tax on these same residences.

It is not intended to examine the alternative proposal of a land tax. While there are arguments made that this is a fairer way of taxing property, it is not the subject of this research. If such an alternative is introduced it does not alter the validity of the research question as to whether a combined system is a fairer and more efficient method of broadening the tax base than the single system recommended by the commission

It is not intended to examine a property tax as a source of local authority funding.

The research does not attempt to measure the impact of the 2008 changes in stamp duty, which moved from a banded system, where all transactions within the band attracted the same single rate of stamp duty, to a progressive system, where stamp duty on the same transaction is chargeable at progressive rates.

#### **1.6.1. Limitations of the Research.**

The research is limited by the absence of an analysis on the numbers of residential properties traded for investment in the statistics provided by the Department of the Environment.

Finally, considerations of time and cost limited the overall amount of research which could be carried out.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1. Introduction.**

The research question falls into two distinct parts.

The value or not of continuing to apply stamp duty on the transfer of a principal private residence, as part of creating a broad tax base, and ensuring a system which is fair and efficient.

Whether or not the proposed annual property tax is one, which meets the criteria of broadening the tax base in a manner which is both fair and efficient

Within these two questions there are a set of sub questions. What exactly is meant by a system, which is fair given that fairness is likely to be a perception influenced by the position in which the person required to pay the tax, is placed? How exactly can one define efficiency in a consistent manner?

The purpose of this chapter is to review existing literature to establish what current expert opinion is on the key components of the research question

The term “stamp duty “should be taken to refer exclusively to the stamp duty on the transfer of principal private residences in this and later chapters. Annual property tax refers to an annual property tax on principal private residences in this and later chapters.

#### **2.2. Stamp Duty - Transaction Based Taxes.**

Transaction based taxes are taxes which are charged on a transaction as distinct from a tax levied on income (income tax) or capital (capital gains tax or capital acquisitions tax in the Irish context). The type of transaction tax with which we most engage is Value Added Tax, which is a tax charged on the value added to goods and services at the point of transfer, usually by sale.

Stamp duty is another transaction tax and is levied on certain transactions, mainly but not exclusively, on the transfer of land and buildings. A legacy of the history of stamp duty is that it is not actually levied on the transaction but on the document governing the transaction. The rate of stamp duty charged is however consequential on the monetary value of the transaction.<sup>1</sup>

### **2.2.1. Home Ownership and Labour Mobility.**

This is an area of taxation on which there is surprisingly little commentary. However, the existing commentary is very relevant to the research question and particularly relevant to the finding of the Commission on Taxation on the rationale for zero rating stamp duty on principal private residences. This included a concern that stamp duty has a negative impact on labour mobility. In terms of existing commentary Professor Andrew J Oswald, opened a debate in a lecture given in 1997, on a potential link between home ownership and labour mobility. (Oswald, 1999)

Professor Oswald makes a case that high levels of unemployment in Europe compared to the US, could not be explained simply by the conventional answers put forward by either economists or ‘newspaper editors’. He identifies the conventional answers or ‘ideas’ put forward as-

- Unemployed people simply don’t want to work;
- Oil prices affect cyclical unemployment;
- Social welfare rates are too high; union power is too strong;
- Taxes on labour are too high;
- Wages are too inflexible;

For each idea he puts forward a case suggesting that the ‘idea’ may not stand scrutiny or may be over rated, but should still be considered in building the overall picture.

His theory is that there is what he calls ‘The missing piece of the unemployment puzzle’ and that missing piece is the increase in home ownership amongst large sections of the non professional classes since the 1950’s.

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<sup>1</sup> Interview with Michael O Hanlon, Assistant Principal Officer, Revenue , Stamping Branch-23<sup>rd</sup> June 2010



In support of his case, Professor Oswald cites research carried out by Owen and Green (1997) in

‘Using the Working Lives Survey,’ as establishing ‘that moves to and from the tiny British private rental sector account for almost as many residential moves as the whole of the owner-occupation sector’ He quotes the private rental sector in the UK at 8%.. He argues that this supports a view that a marked reluctance on the part of owner occupiers to move house has to be taken into account in considering high unemployment rates. (Oswald, 1999) This research is important in the context of the research question as it identifies home ownership rather than transaction taxes as the impediment to labour mobility. It is also important because it influenced subsequent research.

### **2.2.2. Transaction Based Taxes and Labour Mobility**

Van Ewijk, and van Leuvensteijn, (2010) have published a number of papers building on Professor Oswald’s theory. The most recent paper, published electronically, argues that transaction based taxes on residential property add to the cost of moving and disincentivise labour mobility, compounding problems of unemployment. They propose that the EU should reduce transaction-based taxes on the transfer of this type of property. The difficulty with the conclusion, in the Irish context, is that there are other added costs for owner occupiers planning on moving home including legal fees and auctioneer fees, which would also have to be taken into account in measuring the effect of transaction based taxes on the labour market.

### **2.2.3. Distortionary Effects of Transaction Based Taxes**

The final relevant literature is an OECD, Economics Department working paper, which considers the impact of the taxation structure on overall economic conditions. This paper argues that transaction based taxes are more distortionary than other taxes and are inherently inefficient. The case is that the same revenue can be obtained at a lower distortionary cost by taxing income. The authors go on to argue that transaction based taxes have the added distortionary effect of discouraging labour mobility. (OECD, 2008) This study does not reference either Oswald or van Ewijk & van Leuvensteijn. It is

of considerable significance as the subsequent research undertaken established that it carried weight in influencing the outcome of the Commissions deliberations on the area which are the subject of this research.

In conclusion, there is a very well argued and very well evidenced case put forward by Professor Oswald that home ownership has a negative impact on labour mobility. This case is accepted in subsequent studies by van Ewijk & van Leuvensteijn,(2010) who propose an adjustment to the levels of transaction based taxes on the transfer of private residential property as a part solution to easing the negative impact of home ownership on labour mobility. The OECD working paper comes from a different perspective, and concludes that transaction based taxes are distortionary. In short, academic research identifies home ownership as an obstacle to labour mobility while the OECD identifies transaction based taxes on residential property as the obstacle.

### **2.3 Annual Property Taxes**

In the case of annual property taxes there is a literature, much of which has been contributed by Dr William J Mc Cluskey of the University of Ulster. Dr Mc Cluskey generally writes from the perspective of annual property taxes as a source of funding for local authorities. This particular slant only affects the allocation of revenue and does not in any way invalidate the generalisability of his research on other issues.

The advantage of real property as a tax base is that it is fixed and readily identifiable, according to Dr Mc Cluskey. He goes on to say that a further benefit is that it provides a ready security against unpaid taxes and yields tend to be predictable as the base on which the tax is calculated is normally relatively stable.

What is striking about annual property taxes is the range of methods of assessing the tax. These are considered by Dr Mc Cluskey in “Features of Property Taxation” and analysed as assessments based on

- Capital Value;
- Annual Value;
- Land /Site value. (Mc Cluskey, 1991)

This should be extended to include the system of property tax assessed on valuation bands. The work cited above was produced in 1991. The banded system of valuation was

introduced in the Britain in April 1993 (Plimmer *et al* ,2002) , so was not considered by Mc Cluskey in the 1991 work.

### **2.3.1. Property Tax Assessed on Capital Value.**

This is a tax assessed on the capital value of the property. It is workable where there is an active market in property as values can be easily established. Dr Mc Cluskey considers it particularly well suited to valuing domestic property. As property values move up the tax yield increases, making for a buoyant source of revenue. However, he identifies a number of disadvantages. To keep the tax base, on which the assessments are made, up to date requires the input of valuers, which adds to administrative costs. It could also act as a deterrent to improving existing buildings if that would increase taxation. The treatment of unoccupied property has to be decided on and Dr Mc Cluskey points out that this varies widely from administration to administration, with some countries applying a higher rate of tax to unoccupied properties on the basis of ‘the highest or best use concept’ and other jurisdictions exempting such properties. (Mc Cluskey, 1991)

### **2.3.2. Property Tax Assessed on Annual Value.**

Dr Mc Cluskey identifies this system as deriving from ‘the British Property Tax known as rates’.

In this system the basis of assessment is the annual letting value of the property as assessed at the time of valuation. The rate of tax is applied at a percentage of that value. As with a tax based on capital value it requires an active market and the input of valuers. Issues of the tax acting as a deterrent to improving property and the treatment of unoccupied property also arise, as they do in a tax assessed on capital value basis. (Mc Cluskey, 1991)

### **2.3.3. Property Tax Assessed on Land/Site Value.**

Dr Mc Cluskey explains this basis of assessment as one which seeks to separate land value from the value of the buildings which are on the land. The rationale put forward by advocates, he says, is that is that the community also adds value to land and should receive back a contribution in the form of tax. (Mc Cluskey, 1991)

Dr Constantin Gurdgiev sets out this principle well in his 2009 paper, “Land Value Taxation and other Measures for Raising Public Investment Revenue: A Comparative Study”. He describes the rationale as “value capture” and defines it as follows.

‘As public infrastructure generates private returns (and in some cases negative externalities) it either enhances or devalues the value of adjacent and distant land.’

It is the value added by the community to private property through putting in place public infrastructure which the land tax seeks to capture and tax. (Gurdgiev, 2009).

To return to Dr Mc Cluskey, he explains that a land value tax also implies valuing at the highest or best use value. This is different to a capital value or annual value basis of assessment in that it captures the value of development and development potential (what Dr Mc Cluskey calls the ‘hope value’) but does not bring the value of buildings on the land into the assessment.

The advantages of this system is that it avoids the need to revalue where buildings are improved, it could use systems of mass valuation using advanced technology and it could encourage the best use of land. It would also avoid acting as a deterrent to home improvements.

However on the negative side this basis of assessment creates valuation problems in detaching the land value from the overall value and can penalise a land owner where a change of use is simply not possible. (Mc Cluskey, 1991)

This option was set out in the Report of the Commission on Taxation (Pg 142) but was rejected on the basis of understandability and the probable delay in putting in place a valuation data base to allow assessment to be made.

#### **2.3.4 . Property Tax Assessed on Banded Value**

A 1991 study of valuation banding for property taxation was published in the journal of Property Investment and Finance in 2002. The study concentrates on the United Kingdom (UK) experience which the authors identify as unique.

The authors, Plimmer, Mc Cluskey and Donnellan (2002) explain that the system came into being as a replacement for the community charge also known as ‘poll tax’. The ‘poll tax’ was failing as a culture of non-payment of a tax, which was perceived as highly unfair, was developing and leading to social unrest. Because speed was important in

finding a replacement the banding system of valuation was put in place. 'All dwellings were placed by appraisers into eight value bands'. All properties within the band would attract the same amount of tax liability. The authors identify the advantages of the banding system as a quicker, cheaper and easier process than individual valuations. It can contain significant movement of property values within the band and it reduces the levels of appeals against valuations.

The main difficulty arises with properties which are on the border between the bands. They suggest that this should be dealt with by following the practice of giving the benefit of any doubt to the taxpayer. The paper concludes that the advantages of the banded system are significant and the authors consider that the system is eminently suitable for adopting outside of the UK.

This is the option recommended in the Report of the Commission on Taxation (Pg 166) but with the added refinement that the tax should be assessed on the basis of self assessment.

## **2.4 Fairness and Equity in Property Taxation.**

The principle of proportionality is an important one in taxation. It could be seen as an equitable or a fair approach in designing a system of taxation. This might be regarded as a moral principle to be aspired to, but there is evidence in research to suggest that a tax which is seen as fair gets a higher degree of voluntary compliance than a tax which is viewed as unfair and disproportionate. Vlassenko refers to the experience of the UK on the introduction of the highly unpopular poll tax which replaced council tax. Compliance rates with council tax were 98 %. These fell to 82 % for poll tax. (Vlassenko, 2001)

She cites Dr Mc Cluskey, in distinguishing between equity and fairness. Fairness is more a function of the legislation itself while equity is relevant to how the law of property taxation is administered. However, she goes on to cite Plimmer *et al*, (2000) as saying that it is generally accepted that fairness is closely related to the extent to which horizontal and vertical equity principles apply in the system.

### **2.4.1. Horizontal Equity in Property Taxation**

Vlassenko defines horizontal equity as meaning that those who own similar properties pay similar levels of tax. (Vlassenko, 2001)

#### **2.4.2. Vertical Equity in Property Taxation**

This is defined as meaning taxpayers in different financial situations pay different levels of tax. (Vlassenko, 2001) This of course opens the door to reliefs and exemptions which can impact negatively on the tax base.

#### **2.5. Efficiency in Property Taxation.**

The most efficient system of taxation maximises voluntary compliance on the part of the contributor because this reduces the need for intervention by the taxing authorities.

Reductions in interventions lead to savings in the costs associated with enforcement in terms of staffing costs and legal actions for enforcement of compliance. By proposing a system, which makes it easy for the contributor to pay due taxes, the risk of non compliance is reduced, and the perception of fairness is increased. In a modern administration ease of compliance is regarded as good customer service practice.

Efficiency, however, is not confined to high levels of voluntary compliance. In considering a new system the costs of processing the associated tax returns and payments are also factors.

#### **2.6. Evaluating Fairness and Efficiency in a Property Tax.**

Vlassenko, notes the absence of literature on this point. To carry out an assessment of the fairness and efficiency across three widely varying types of property tax, France, Sweden and The United Kingdom. Vlassenko devised a model which imposed consistency of evaluation as far as possible. (Vlassenko, 2001) This is interesting as it takes the overall principles of fairness and efficiency in taxation and attempts to break them down into a series of questions to be answered to enable an evaluation of a tax under both headings. It is also interesting in that the system devised by Vlassenko can be applied to property tax in another jurisdiction or indeed to a different type of tax and as such has a high degree of generalisability.

### **2.6.1.Vlassenko's Model of Evaluation**

This model defines eight criteria under each of the headings fairness and efficiency- a total of sixteen in all. These are set out in Figure 2.1.

**Figure 2.1 Vlassenko's Model- Evaluating Fairness and Efficiency in Property Taxation**

The Eight Criteria of Fairness	The Eight Criteria of Efficiency
Horizontal Equity	Cost effectiveness
Vertical Equity	Revenue Raising
Equality before the law and an appeal procedure.	Well – Defined taxpayer base.
Those who benefit should contribute.	Effective collection procedures
Regular reassessment of base	Effective Administration
Transparency in relation to law and administration.	Effective assessment of the tax base
Ability to pay mechanisms in place.	Effective dispute mechanism
Fair value based assessments.	High quality tax records.



(Vlassenko, 2001)

#### ***2.6.1.1. Measurement of Fairness and Efficiency Criteria***

Table 2.1 identifies the eight criteria under both fairness and efficiency. The basis of measurement is set out below.

- If all criteria are fulfilled the system is highly fair or efficient.
- If more than 50% of the criteria are fulfilled it is quite fair or efficient.
- If 50% are fulfilled it is relatively fair or efficient.
- If less than 50% are fulfilled it is relatively unfair or inefficient
- If none are fulfilled it is unfair or inefficient. (Vlassenko, 2001)

## Chapter 3

### RESEARCH METHODOLOGY METHODS AND DESIGN

#### 3.1. Introduction.

Saunders, Lewis & Thornhill's book, *Research Methods for Business Students*, distinguishes between Research Methods and Research Methodology. It defines methodology as the theory of how research should be undertaken and method to refer to techniques and procedures used to obtain and analyse data. This chapter follows the definition suggested by Saunders *et al*, (2007) and separates research methodology from research method. In research design it sets out the research design decided on in the conduct of this research. (Saunders *et al*, 2007)

Methodology can be analysed under a number of headings

- Research Philosophy
- Research Approach
- Research Focus

Each of these main research headings break down into a number of sub headings categorised under the main heading paragraph. In terms of researching this paper the following methodology was considered before a final decision was made on the approach which was most suitable to the research question.

#### 3.2 Research Philosophy

Saunders *et al*, (2007) define research philosophy as the overall term used to encompass 'the development of knowledge and the nature of that knowledge' While research philosophy is to some extent dictated by the subject matter of the research Saunders *et al*, (2007) argue that research philosophy is more likely to be influenced by how the researcher views the world, than the subject matter. They illustrate this by example,

arguing that a researcher who is interested in establishing the facts of a matter such as the resources needed in a manufacturing process will have a different world view from a researcher trying to establish the feelings of the workers in the area have towards their management. Both researchers are likely to adopt different methods but more significantly will have very different views on what is important in terms of the information collected and how that information should be used. Flowing from this fundamental difference in approach they go on to categorise research under two headings, positivism and Interpretivism. (Saunders *et al*, 2007)

### **3.2.1 Positivist Research**

According to Remenyi *et al*, (1998) cited in Saunders *et al*, (2007) positivist research is one which lends itself to “working with an observable social reality and the end product of such research can be law like generalizations similar to those produced by the physical and natural scientists’

This research philosophy relies on observable data to move to a credible conclusion. In effect it examines the relationship between two variables to establish or refute cause and effect, as in natural sciences. It requires the researcher to remain external from the topic of research. However Saunders *et al*, (2007) caution that it can be argued that complete distance from the subject is impossible. In making a decision on what to research, the objectives of the research and what data will be collected, the researcher has already exercised a degree of involvement in the research subject.

### **3.2.2. Interpretive Research**

Critics of positivism see it as unsuitable to the business world, which is influenced by considerations other than natural or physical laws. They argue that personal interaction is also important and understanding relationships, people’s, perceptions of themselves and their perceptions of others with whom they interact is vital to undertaking credible research. (Saunders *et al*, 2007)

Because the researcher has to empathise , in this context meaning, enter the world of the research subjects and understand it from their point of view, critics argue that this means that the generalisability of the research is suspect. Generalisability is the ability to transfer the findings of a specific piece of research to a more general context. Supporters of the interpretative approach take the view that the world of business is always changing so findings which are applicable today are not necessarily applicable in the near or distant future. If this is the case generalisability is not critically important. (Saunders *et al*, 2007)

### **3.2.3. Research Philosophy Adopted.**

This research seeks to answer a question as to whether the best method of taxing principal private residences is that set out in the report of the Commission on Taxation , an annual property tax only, or whether a combined system of a positive rate of stamp duty and annual property tax would be a fairer and more efficient method of broadening the tax base. The question lends itself to the interpretative philosophy rather than the positivist approach, as there is no question of cause and effect. Including fairness in the research question moves into subjective areas of perception where interpretation and judgement are required. On this basis the interpretive philosophy has been selected for this piece of research.

### **3.3 Research Approach**

As with research philosophy there are two possible approaches,

- The deductive approach
- The inductive approach. (Saunders *et al*, 2007)

The deductive approach tests a theory about two or more variables in a relationship to form a hypothesis. As with positivist research it is particularly suited to research carried out in the physical and natural sciences.

The inductive approach is about building a theory as distinct from testing a theory. The difference is that in the first case, deductive, the theory precedes the data. In the second case, inductive, the data is built and the theory flows from the data.

### **3.3.1. Research Approach Adopted.**

There is very little existing theory relating to one half of the research question (transaction based taxes on the transfer of residential property) and none which this researcher can trace on the question of whether an annual property tax on private residential property is a fairer and more efficient way of broadening the tax base than a system of combining a transaction based tax (stamp duty) and an annual property tax. On balance it seems more logical to examine the available data, analyse it and allow the theory to emerge based on the analysis. The research approach selected is the inductive approach.

### **3.3.2. Research Purpose/Focus**

The purpose research is to answer a research question. Saunders *et al*, (2007) state that this can be done by

- Exploratory study
- Explanatory study
- Descriptive study

#### ***3.3.2.1. Exploratory Study***

According to Adams and Schvaneveldt (1991) cited in Saunders *et al*, (2007)

‘Exploratory research can be likened to the activities of a traveller or explorer’ This is defined by Robson as a means of finding out “what is happening; to seek new insights” (Robson,2002 Pg 59) .

There are three principal ways of conducting an exploratory study.

- Searching the literature
- Interviewing experts
- Conducting focus group interviews.

### **3.3.2.2. Explanatory Study**

An explanatory study seeks to establish the relationship between variables. It explains causal relationships between variables. Correlation, although often identified as a separate type of study, is very closely linked an explanatory study, and may be used to develop a finding from an explanatory study. (Saunders *et al*, 2007) It is a study of the extent to which the variables are related to each other. An explanatory study is particularly well suited to positivist research.

### **3.3.2.3 Descriptive Study**

This seeks to describe accurately a phenomenon, situation or event. Robson describes its purpose as ‘to portray an accurate profile of persons, events or situations’ (Robson, 2002 Pg 59) However, Saunders *et al*, (2007) warn that descriptive studies have to be dealt with carefully as there can be a temptation to just describe and not draw conclusions.

### **3.4. Research Focus Adopted.**

The study focus for this research includes both exploratory and explanatory study. While the focus is primarily exploratory, partly due to the absence of existing research, it moves into the area of explanatory study in dealing with certain areas, for example in explaining why increased exemptions under stamp duty did not cause a fall in yield from that tax during the period 2000 to 2007.

### **3.5..Data Required**

In planning the research method it was necessary to consider the type of data, which would be required, and how it might be acquired in the most effective way appropriate to the research. The data required are the facts, figures and opinions, which are collected for reference and analysis. The data can be qualitative or quantitative. (Bryman, 1988 cited in Saunders *et al*, 2007)

However, the distinction is not always easy to define according to Saunders *et al*, (2007) The authors propose a chart based on their own experience and developed from Dey (1993) and (Rawlins, 1993) which is replicated at Figure 3.1.

**Figure 3.1 Distinctions between Quantative and Qualative Data**

Quantative Data	Qualative Data
Based on meanings derived from numbers	Based on meanings expressed through words
Collection results in numerical and standardised data	Collection results in non standardised data requiring classification into categories
Analysis conducted through the use of diagrams and statistics.	Analysis conducted through the use of conceptualisation

The type of data required for this research is mainly qualitative but in certain areas quantitative data is required. These areas are where the stamp duty tax base, rates and yields are examined.

### **3.5.1 Data Collection Methods**

The type of data referred to in research can be broken down between secondary data and primary data.

#### ***3.5.1.1.. Secondary Data***

These are data which were collected for some purpose other than the current research. These include published material, unpublished material, statistics and organisational reports. Saunders *et al*, (2007) state that different researchers have developed a number of classifications for secondary data. The sub groups identified by the authors are

- Documentary data
- Survey based data
- Multiple source data

Documentary data include books, journals, magazines and newspapers as well as electronic data. Certain of these sources can be very valuable in that they may contain raw data which can be used to generate further knowledge and insights. (Bryman, 1989 cited in Saunders *et al*, 2007)

Survey based data comes from existing surveys of all the population for example a national census or a marketing survey covering part of the population.

Multiple source data is data which has already been amalgamated and analysed for example an OECD Report, compiled from data produced by a number of member states.

Secondary data are the most logical starting point for research as it allows the researcher to determine what is already known about the subject.

This research uses both documentary data and multiple source data. It includes Government publications,( Ireland, Finland, New Zealand, and Australia) OECD publications , Non Governmental Agency publications, International Bureau of Fiscal Documentation papers , books and journals relevant to the topic.

#### **3.5.1.2. Primary Data**

Primary data are data which is gathered for the purpose of the current research. The data gathering methods include

- Interviews
- Questionnaires /Surveys
- Case studies
- Focus groups

##### **3.5.1.2.1. Interviews**

Khan and Cannell (1957) cited in Saunders *et al*, (2007) state that ‘An interview is a purposeful discussion between two or more people.’

The authors go on to categorise interviews under three headings,

- Structured Interviews
- Semi Structured Interviews
- Unstructured Interviews

The authors make the important point that each form of interview has a distinct purpose.



#### *3.5.1.2.1.1. Structured Interviews.*

These use pre determined and standardised questionnaires. Each interviewee is asked the same set of questions and the response is recorded. These are usually used to collect quantative data and can be particularly appropriate to positivist research.

#### *3.5.1.2.1.2. Semi Structured Interviews*

These also include questionnaires but are not standardised as all questions may not be relevant to all respondents. King describes them as ‘qualative research interviews’ (King, 2004). These are flexible enough to add questions and explore questions.

#### *3.5.1.2.1.3. Unstructured Interviews*

These are also called in depth interviews. Although there is no clear cut set of questions both interviewer and interviewee need to have clear idea of what is to be explored. These are non directive and the interviewee is given every scope to lead the interview.(Saunders *et al*, 2007 Pg 312). They are usually conducted face to face but telephone interviews or internet interviews can also take place. The authors identify this type of interview as particularly useful in exploratory research, following Robson’s view that exploratory research is designed ‘to find out what is happening’ (Robson, 2002)

#### *3.5.1.2.2. Surveys*

These can be conducted over an entire population, that is, all members of a defined group or over a selected sample of the group, with a view to extrapolating from the sample a general finding. ‘Questionnaires are usually not good for exploratory research or other research that requires large numbers of open ended questions.’ (Saunders *et al*, 2007)

#### *3.5.1.2.3 Case Studies*

Saunders *et al*,(2007) describes a case study as a study ‘that involves the empirical investigation of a particular contemporary phenomenon within its real-life context, using multiple sources of evidence.’

#### *3.5.1.2.4. Focus Groups*

These are defined as a group interview with multiple participants, where the topic is defined and interaction between the members of the group is encouraged. (Carson *et al*, 2001 cited in Saunders *et al*, 2007)

### **3.5.2. Data Collection Methods Selected.**

An examination of the research question and the research objectives, together with the research philosophy and approach already decided on, indicated that documentary data and multiple source data would be required.

In the case of primary data case studies were considered impractical in the time frame as it would require examination of the taxation of property in one or more peer countries. Cost was also a factor in deciding against this option. While a focus group would have suited the research the logistical obstacles to organising a focus group consisting of the members of the Commission on Taxation ruled this option out.

The two methods of research decided on were interviews and a single survey, of the members of the Commission, to provide verification and validity to the interview findings. These are discussed in more detail under the paragraph headed research design.

### **3.6. Design of Research**

The recommendation of the Commission on Taxation on the taxation of principal private residences divides into two separate parts. These are the proposal to zero rate stamp duty and the proposal to introduce an annual property tax. It was important to get an insight into the mind and rationale of the Commission in formulating its recommendations and the two recommendations relevant to the research question, in particular. The research question is whether or not these proposals represent a fairer and more efficient way of broadening the tax base on principal private residences than a combined system of a positive rate of stamp duty and an annual property tax?

On the substance of the proposals, the areas which fall to be examined are existing stamp duty, the proposed annual property tax, the broadening of this part of the tax base, the question of the fairness and efficiency of existing stamp duty and the recommended annual property tax.

As noted above secondary research is the logical starting point as it allows the researcher to establish what is already known about the research question. Primary research is more suitable for establishing answers which are not clear from the secondary research undertaken.

### **3.6.1.. Secondary Data Used.**

The Report of the Commission, the unpublished working papers of the Commission<sup>2</sup> and certain submissions to the Commission were the main sources of secondary data used.

Government publications, OECD publications and International Bureau of Fiscal Documentation papers were used in all areas of the research. There were additional sources consulted for specific research areas and these are outlined below.

### **3.6.2. Broadening the Tax Base.**

The data identified at paragraph (3.5.1) were used.

### **3.6.3. Stamp Duty**

Research was required on whether or not stamp duty had a negative effect on labour mobility. Published works of a number of academics were used and are cited in the text.

### **3.6.4. Annual Taxes on Property.**

A number of papers by Dr WJ Mc Cluskey, and Irina Vlassenko were used. All are cited at the appropriate place in the text.

### **3.6.5.. Fairness in Property Taxation.**

The data identified at (3.5.4.) were also used for this part of the research.

### **3.6.6. Efficiency in Property Taxation.**

Newspapers were useful in identifying certain highly performing areas of the local authority. (Melia,P, 2010 b)

### **3.6.7. Summary of Secondary Research.**

Having concluded the secondary research there were a number of areas where the material available through secondary research was not sufficient to provide an answer to the research question.

These are

- a) What guided the Commission in it's recommendations generally and in the recommendation which are the subject of this research particularly.

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<sup>2</sup> The papers are not published but can be accessed under Freedom of Information legislation. The specific reference is included in the reference list.

- b) Is there any basis in research or experience to support a view that stamp duty on the transfer of private residential property interferes with the labour market.
- c) Is stamp duty a fair and efficient tax?
- d) Is there an existing experience of local taxation in Ireland which could be used to determine if the proposed design of annual property tax on principal private residences is fair and efficient?

### **3.6.8 Primary Research Undertaken.**

The primary research to be undertaken had to be designed to deal with items identified above. The exploratory nature of the research project and the nature of the remaining questions both pointed towards the need for expert opinion and insight. On this basis, interviews were selected as the most time effective and cost effective way to proceed.

#### ***3.6.8.1. Securing Expert Opinion.***

Dr Michael Collins, Department of Economics, Trinity College Dublin, and member of the Commission on Taxation contributed an interview.

Shay Cody, General Secretary of IMPACT and a member of the National Council for Competitiveness (NCC) was interviewed on the NCC submission to the Commission.

Aidan Fennessy, Manager, Water Services, South Tipperary County Council, was interviewed on the fairness and efficiency of Water Rates in Tipperary South County Council. This local authority has the highest national compliance rate with this charge. (Melia,P 2010 b )

Mr Brendan Hayes, former SIPTU official and Vice Chair of the Labour Court, a member of the commission, was interviewed, on the recommendations, and the considerations which determined the recommendations.

Garry Martin-, Financial Controller, and Richard Gibson, Administrative Officer, Donegal County Council, were interviewed on the fairness and efficiency of existing local taxes, specifically NPPR, commercial rates and water charges.

Michael O Hanlon, Assistant Principal, Revenue Commissioners, was interviewed on the fairness and efficiency of stamp duty.

Sean O Riordain, retired General Secretary of the AHCPs, and a leading commentator on decentralisation in the Irish Public Sector, was interviewed on labour mobility and the issues influencing labour mobility in the Irish experience of decentralisation.

#### ***3.6.8.2. Format of Interview- Unstructured Interviews.***

In the case of Mr Martin, Mr Fennessy and Mr O Hanlon an advance form was provided to show the areas of interest. This was provided because the question of efficiency had to be considered and there could be a need to examine figures in advance.

However, the unstructured form of interview was used. The main objective of the interview was to try to secure the interviewees insights into the fairness and efficiencies of the systems they managed. As their expertise was much deeper than the researcher's, it was considered likely, that allowing them to lead the interview as much as possible was the best way to capture that expertise.

Trying to structure the interview could mean that valuable insights might be missed through not knowing a "right" question to ask.

In the case of Dr Collins, Mr O Riordain and Mr Cody, no advance paper was provided and these interviews took place over the telephone.

The interviews were recorded by written note. This was because it was considered that audio recording was too intrusive and that a better result would be achieved in a more traditional form of recording, that is, note taking.

#### ***3.6.8.3. Survey.***

A survey of members of the Commission on Taxation was carried out to establish what they believed influenced the recommendations on property tax. This excluded Mr Hayes, who had already been interviewed on the subject.

A total of 15 questionnaires were issued with return stamped addressed envelopes. Anonymity was assured. The number returned was nine, which is 64%. Three members added further comment.

Three respondents declined to answer questions. A reminder was issued and a further respondent declined to answer. Confidentiality of the commission's deliberations was the

reason given. The high level of non answers rendered the survey inconclusive. The analysis is included at Appendix ix.

Two respondents telephoned me to further discuss the matters covered. One answered the questions over the telephone and the responses are included in the numbers returned ant the analysis.

Dr Michael Collins of TCD responded and agreed to talk in depth about the Commission findings and property taxes in general. He also agreed that his contribution could be used and credited in this research. I have not included Dr Collins in the nine respondents to maintain consistency with the position of Mr Hayes, who was also interviewed.

### **3.6.9. Conclusion**

The research required a combination of secondary and primary research. The exploratory nature of the research meant there was a significant reliance on interviews. In so far as possible statements of interviewees were verified by analysis of available figures. This applied to stamp duty collection rates. The legislation was also consulted in this area. In relation to the influences on the Commission on Taxation Mr Hayes and Dr Collins provided two independent sources as did Mr Martin and Mr Fennessy for issues on existing annual taxes.

## **Chapter 4**

### **RESEARCH FINDINGS**

#### **4.1 . Introduction.**

The purpose of the research undertaken was to establish answers to the questions posed in the research objectives. The purpose of the research objectives is to form an opinion based on the evidence provided by the research as to whether the proposed changes put forward by the Commission on Taxation, are the fairest and most efficient method of broadening this part of the tax base. The alternative position is to adopt a combined system of a positive rate of stamp duty on the transfer of principal private residences together with annual taxes.

#### **4.2. Broadening the Tax Base- International Comparators.**

The need to broaden the tax base is indentified in the original brief of the Commission. This is also noted as a requirement in the OECD Report of 2009 on rebuilding the public finances. (OECD, 2009)The following paragraphs give an overview of peer country policy on the taxes which are the subject of this research

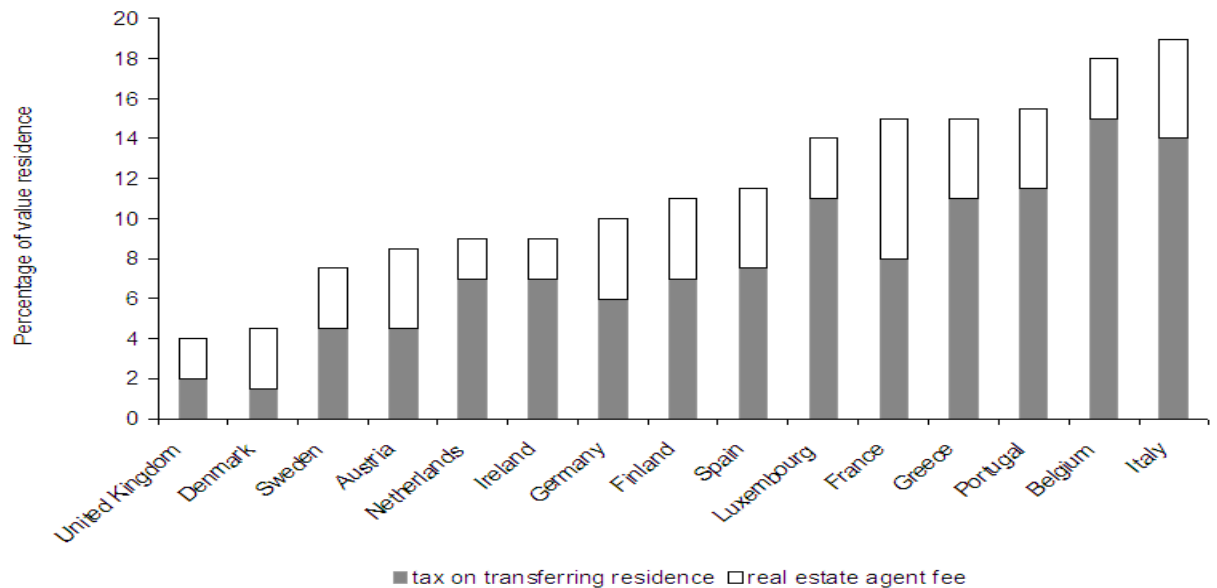
##### **4.2.1. Rates of Stamp Duty or Transfer Tax in EU Peer Countries**

In selecting peer countries the newer countries of the EU are not included. Though these countries have transfer taxes, they are newly established in many cases. For example Poland charges a 2% rate of stamp duty on all property transfers not subject to VAT. (International Bureau of Fiscal Documentation, 2008) They were not a feature of the earlier communist/socialist systems. Because of their recent introduction they may not be a good comparator and could distort the findings.

There is a perception that stamp duty rates in Ireland are particularly high. However comparison with peer countries in the EU does not support this perception. Ireland falls

about the middle of the range when the stamp duty is evaluated as a percentage of the cost of a residence, as Figure 4.1 shows. The rate of Irish stamp duty did not increase between 2005, when this chart was compiled, and 2008

**Figure 4.1.-Comparative Rates of Stamp Duty**



*Source: Belot and Ederveen (2005) cited in (van Ewijk and van Leuvensteijn,2010)*

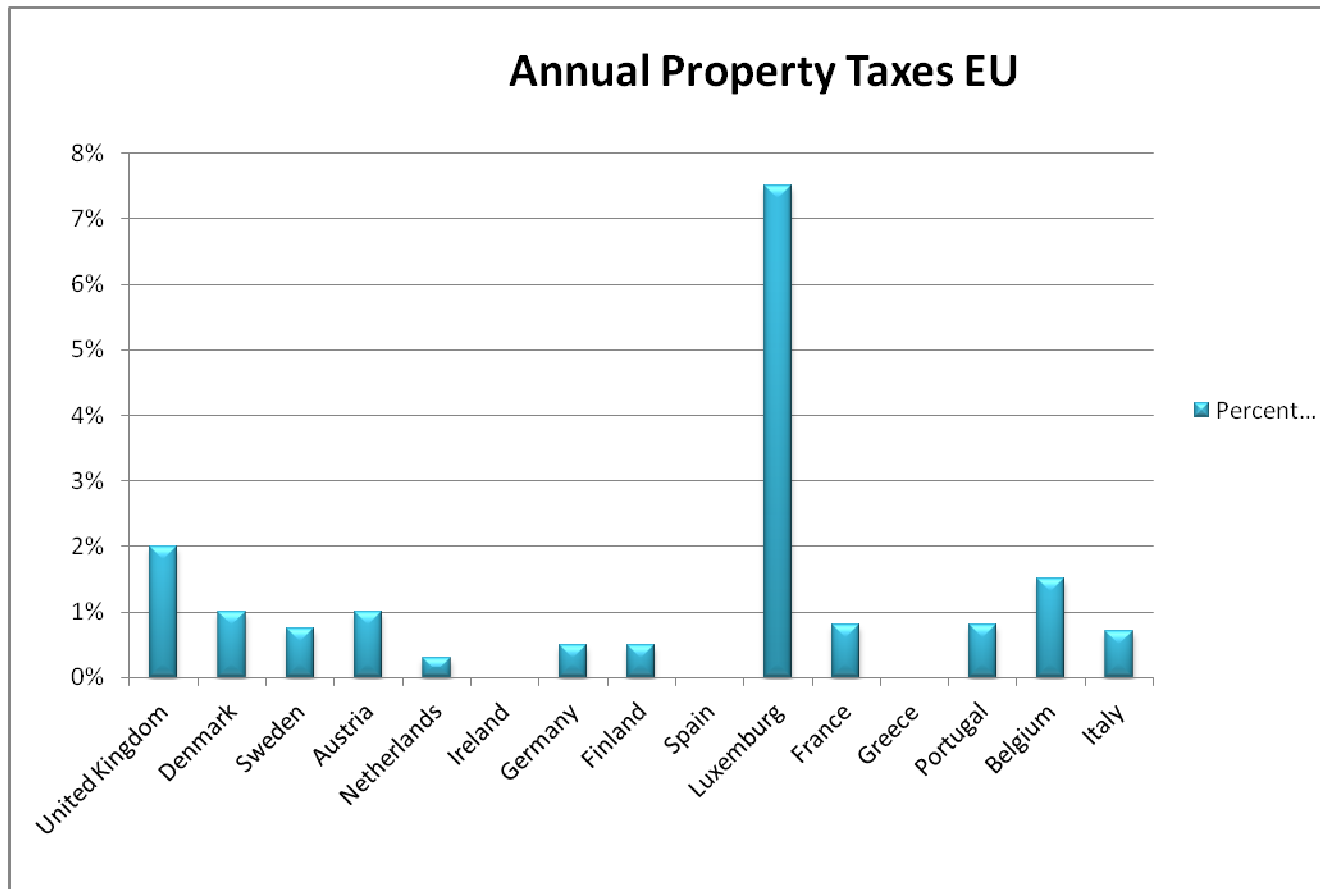
#### **4.2.2. Annual Property Tax in EU Peer Countries.**

The same definition of peer countries as is used in 4.2.1. is used in this paragraph. The basis of the charge is the 'assessed' value in most countries. The assessed value is not necessarily the market value. Even where it is the market value, the figure can be out of date, depending on when assessments were made. Where the tax is progressive the highest rate is used. This explains why Luxembourg shows a rate of 7.5 % but that is the maximum charge. In some cases the rate had to be calculated.

Figure 4.2 indicates that with the exception of Ireland, Spain and Greece, annual property taxes are a normal feature of the tax base. Appendix i. sets out the calculations underpinning the chart



**Figure 4.2.. Comparative Annual Property Tax in EU Countries.**



#### **4.2.3. Stamp Duty and New Zealand.**

There is no European precedent for reducing stamp duty to zero. However, despite not being a peer country as defined, the position in New Zealand deserves mention, as it is most unusual. New Zealand abolished all stamp duty on all transactions in 1991.

(International Bureau of Fiscal Documentation, 2008). Like Ireland it is considering how to deal with problems of an eroded tax base. The Tax Working Group was established in 2009, by Victoria University of Wellington's Centre for Accounting Governance and Taxation Research, in conjunction with the Treasury and Inland Revenue. It reported in January 2010. Interestingly, it did not identify the absence of transaction based taxes as

an issue in the narrow tax base. (Victoria University of Wellington Tax Working Group , 2010) .It does however recommend the introduction of a land value tax.

#### **4.3. Conclusion on International Comparators.-1st Research Objective.**

Based on a comparator of peer countries the pattern, which emerges, is a norm of taxing principal private residences by using a combined system. While there are EU countries which lack an annual property tax on the principal private residence, no EU country has abolished transaction taxes on the transfer of the principal private residence.

#### **4.4. Development of Stamp Duty on Principal Private Residences.**

Michael O Hanlon, Assistant Principal, Stamping Branch in Revenue outlined the history and development of stamp duty in Ireland. <sup>3</sup>

Up to 1969 there was no distinction between the rates of stamp duty charged on the transfer of lands and property, residential property or commercial property, new property or second-hand property.

In all cases stamp duty on the document of transfer was calculated at a fixed rate of duty which was determined by the valuation band of the property to be transferred. Between 1969 and 2007 a series of legislative amendments were put in place, which separated residential property from other property transactions, and transactions in new residential property from second hand property, first time buyers from other buyers, and owner occupiers from investors.

During the period 1999 to 2004 valuation bands were also widened particularly in the case of first time buyers.

The following paragraphs set out the effect of these changes on the tax base, on the effective rates of stamp duty and on stamp duty yields at 2008, when the Commission on Taxation was set up.

##### **4.4.1 Reliefs and Exemptions 1999-2008**

Mr O Hanlon explained that exemptions and reliefs in stamp duty were frequently changed during this period. This was driven at first by the need to create more housing

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<sup>3</sup> Interview in Stamping Building, Dublin Castle, 23<sup>rd</sup> June 2010

and then by the need to deter investors from competing with first time buyers, particularly for older properties.

Despite the continued introduction and extension of reliefs, which narrowed the tax base, the tax yield continued to increase. This reflected a very active market and increases in house prices.

The changes in legislation during the period were markedly influenced by The Bacon Reports, which were commissioned by Government, to recommend solutions to the poor supply of houses at that time according to Mr O Hanlon.

#### ***4.4.1.1 . 1<sup>st</sup> First time buyer's relief.***

In 1969 there was an exemption from stamp duty granted to first time purchasers of residential property . There were conditions attached in terms of floor area and eligibility to housing grants under Section 15-20 of The Housing Act 1966. This was the first significant movement of a class of transactions on residential property from the tax base. *Finance Act 1969, s.49.*

#### ***4.4.1.2. Owner/Occupiers Small Dwellings Relief.***

This legislation exempted all new properties which were between 38sq metres and 135 sq metres from stamp duty. This relief applies to all purchasers for purposes of own occupancy and not just first time buyers. *Stamp Duty Consolidation Act ,1991.s.91.*

#### ***4.4.1.3. Widening the Exempt Valuation Bands.***

The exempt valuation band for all first time buyers of new or second hand property was widened in each of the year's 1998, 2002, 2004 and finally in 2007 all first time purchasers of residential property for owner occupancy was charged to stamp duty at a nil rate of duty, which was still the position at 2008 when the Commission on Taxation began work on its Report. <sup>4</sup>

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<sup>4</sup> E Mail received from Imelda Scally, HEO, in Stamping Branch, Dublin Castle, 22<sup>nd</sup> April 2010.

#### **4.4.1.4. Effect on the Tax Base.**

The combined effect of these reliefs and exemptions gradually reduced the tax base. At the end of 2007 43% of purchases of private residential property were outside the tax base with 57% of residential transactions contributing 100 % of the stamp duty yield from this type of transaction. (Department of Environment, 2008)

See Appendix ii for basis of calculations

**Figure 4.3 Effects of Exemptions and Reliefs on Tax Base at 2007**

No of Transactions	Number Eligible for Small Dwelling Relief	Number Eligible for First Time Buyer Relief.	Number Not Liable to Stamp Duty
88,747	3,500	34,499	50,748
100%	4%	39%	57%

#### **4.5. Reliefs and the Tax Rate.**

The preceding paragraph shows the effect of the development of stamp duty legislation on the tax base, which effectively had removed up to 43 % of residential property transactions from the tax base by 2007. The next area to be examined is the effect of the development of legislation on the effective rate of stamp duty on residential property.

##### **4.5 1. Nominal and Effective Rates of Irish Stamp Duty.**

The nominal rates of Irish stamp duty for non first time purchasers start at 3% and increase incrementally by a percentage point reaching 6% then by 1.5% increments to reach 9%

However, the rate of stamp duty for owner-occupiers of new houses is limited to stamp duty on either the site value of the house or 25 % of the total value of the site and house. *Stamp Duty Consolidation Act 1999, s.92.*

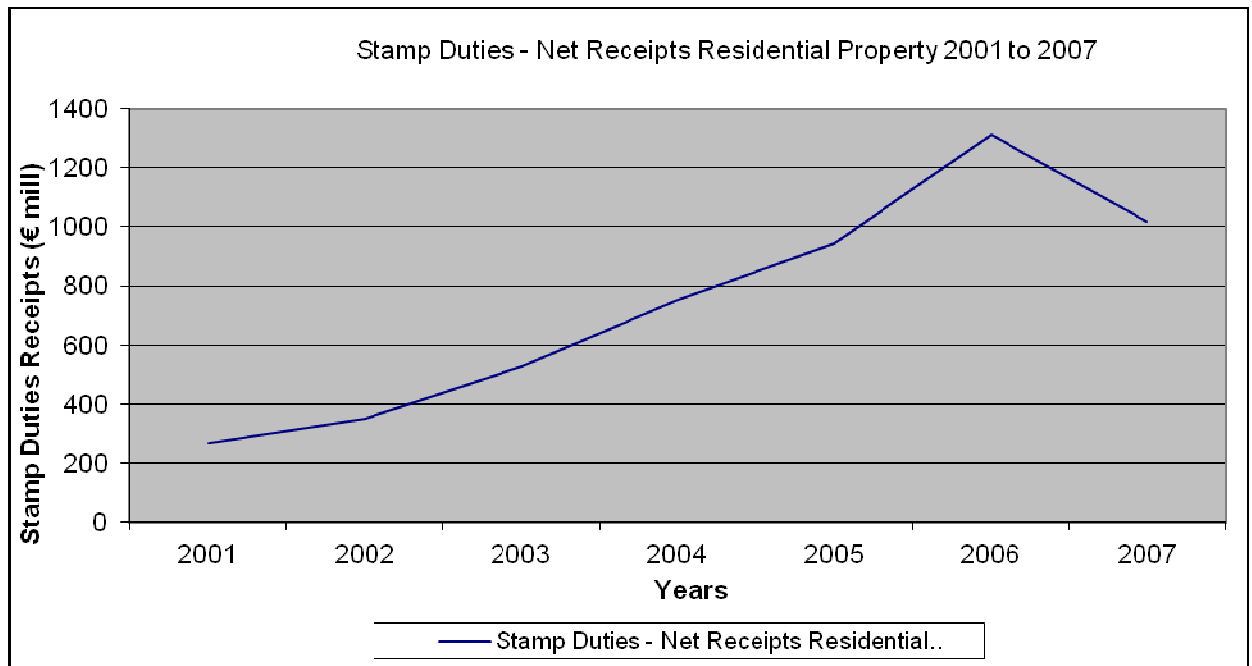
Applying the 25 % formula to the rates of stamp duty means that owner occupier purchasers of new houses pay a maximum stamp duty of 2.25% ( $9\% \times 25\% = 2.25\%$ )

#### ***4.5.2. Effect on Tax Yields***

Figure 4.4 sets out the effect on stamp duty yields during the period 2000 to 2008 and confirms Mr O Hanlon's view that tax yields did in fact increase up to 2007.

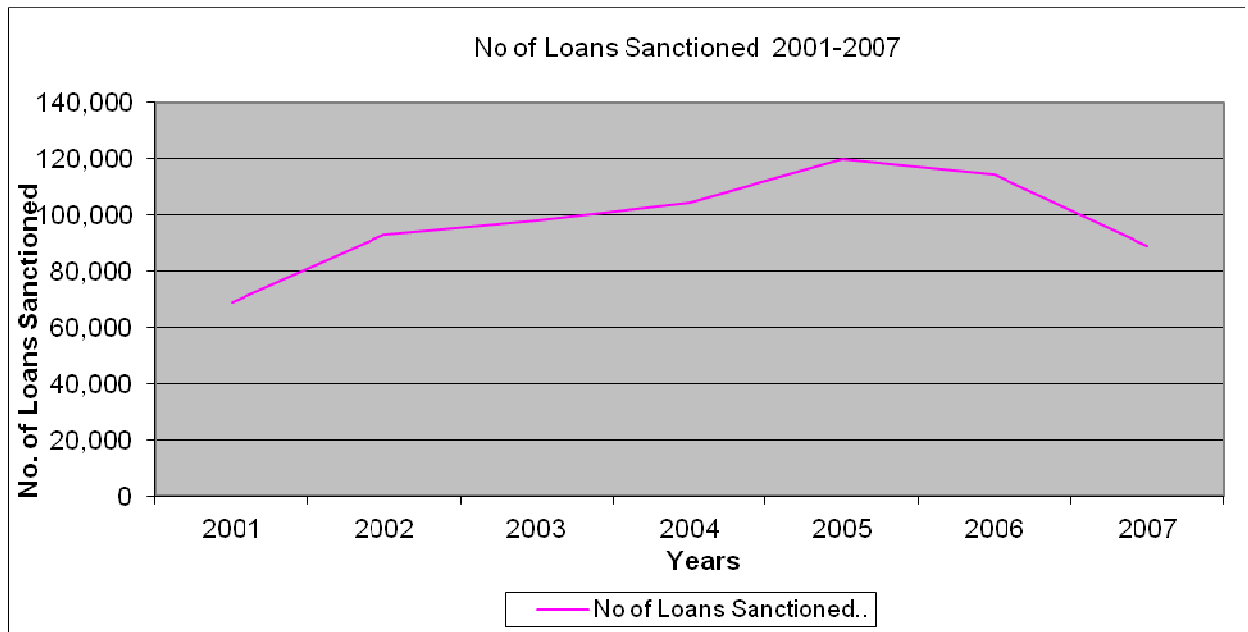
The downward impact on stamp duty yields recorded in 2007 may be attributable to the decrease in market activity in the period as well as to changes in the stamp duty bands as the downward curve on stamp duty receipts follows the downward trend in loans sanctioned.

**Figure 4.4.-Stamp Duty Receipts from Residential Property 2001-2007<sup>5</sup>**



<sup>5</sup> This chart is compiled from data provided by P Molloy, Assistant Principal, Revenue, and Corporate Services Division, 22nd March 2010

**Figure 4.5.No of Loans Sanctioned by all Lenders 2001-2007<sup>6</sup>**



#### **4.6. Fairness and Efficiency of Stamp Duty.**

If a maximum of 57 % of residential transactions contributed 100 % of stamp duty the question arises as to whether stamp duty is a fair and efficient tax .

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<sup>6</sup> This chart was compiled using statistics from the Department of Environment Annual Housing Statistics 2007 (Department of Enviroment, 2008)

#### **4.6..1. Test for Fairness of Stamp Duty.**

Examining stamp duty against the criteria for fairness set out in Vlassenko's model gives the following results.

- Horizontal equity implies that buyers in the same relative position would pay the same amount. However, buyers of new houses are treated differently from buyers of second hand houses. First time buyers are treated differently from other buyers. These factors point to an absence of horizontal equity.
- Vertical equity requires that people in different financial positions pay different amounts. Stamp duty is imposed without consideration of the financial circumstances of the buyer, which indicates that it does not meet the test of vertical equity.
- Apart from the equity issues there is equality before the law in terms of the charge.
- The tax is a national tax and arguably all citizens in a similar situation benefit. However, not all citizens in a similar situation pay the tax, so the contribution test is not fulfilled.
- There are regular legislative reviews of the tax base.
- The Revenue Commissioners website set out details of the charges to stamp duty and the exemptions. These are difficult to follow, but this is complex legislation.
- There is no provision for instalment arrangements for those with ability to pay issues.

Figure 4.6 below shows 50% of the criteria are fulfilled. This makes the tax a relatively fair tax.



#### **4.6.2.. Test for Efficiency of Stamp Duty.**

- Stamp duty has raised significant revenues on a consistent basis based on tax yields over a period 2000 to 2007
- Those liable for the tax are well defined in that it potentially applies to all property purchasers.
- Mr O Hanlon estimates compliance rates with stamp duty provisions as close to 100% which indicates very high collection efficiency
- E Stamping has reduced the number of administrators by fifty which indicates a very effective administration
- The assessment base is defined in law within banding system and is well defined.
- There is an appeal procedure in place according to Mr O Hanlon, which is called “adjudication”. There is also the general right to have a case determined by the Appeal Commissioners and higher courts on a point of the application of the law.
- Internal electronic records are maintained.<sup>7</sup>

Applying Vlassenko’s model to the above findings on efficiency 100% of the criteria fulfilled, which makes this a highly efficient tax. See Figure 4.6

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<sup>7</sup> Interview with M O ‘Hanlon , Revenue, Dublin Castle 23<sup>rd</sup> June 2010

**Figure 4.6- Application of Vlassenko's Model of Fairness and Efficiency to Stamp Duty.**

Fairness	Outcome	Efficiency	Outcome
Horizontal Equity	Not fulfilled	Cost effective	Fulfilled
Vertical Equity	Not Fulfilled	Revenue Raising	Fulfilled
Equality before the law	Fulfilled	Well – Defined taxpayer	Fulfilled
Those who benefit should contribute.	Not Fulfilled	Effective collection	Fulfilled
Regular reassessment of base	Fulfilled	Effective Administration	Fulfilled
Transparency and understandability in relation to law and administration.	Fulfilled	Effective assessment of the tax base	Fulfilled
Ability to pay mechanisms in place.	Not Fulfilled	Effective dispute mechanism	<b>Fulfilled</b>
Fair value based assessments.	Fulfilled	High quality tax records.	Fulfilled.

#### **4.6.3..Conclusion on Stamp Duty- 2<sup>nd</sup> Research Objective.**

In answering the first research question, the analysis of the available evidence suggests that stamp duty on owner occupied residences, is highly efficient as a tax, but is not sufficiently broadly based. The narrow base of the tax means that a small number of people pay a very high rate of tax on similar transactions. Inequities are also evident in the significant differences in the rates of tax charged to purchasers of different types of property-new or second hand. This runs counter to the principle of horizontal equity and can be reasonably described as unfair within these two definitions.

#### **4.7. Rationale for Recommendation of Commission.**

The Report of the Commission gives an explanation of the basis on which the Commission decided to zero rate stamp duty on the transfer of the principal private residence. Pg 162 of the Report says that “stamp duty is the most significant cost of the transaction” that is buying a principal private residence, and therefore reduces the efficiency of the property market. However, the findings It makes two arguments in favour of this recommendation.

- a) It can prevent a seller from trading down as the purchaser would have to pay stamp duty and the seller would most likely pay stamp duty on a further house.
- b) It could impact negatively on labour mobility.

##### **4.7.1. Initial Conclusion of Commission.**

The unpublished working papers of the commission show that the initial conclusion was to adopt a combined system for the taxation of principal private residences. At January 2009 the unpublished papers show that the commission considered the National Competitiveness Council, Annual Report, 2008, which cautioned against a “hybrid system. The commission concluded at that date

However, the commission, in grappling with the absence of an up to date valuation base, considers that the total abolition of stamp duty on real property transactions is not a viable option at this stage. From an administrative and tax compliance viewpoint , stamp

duty is a tax that works well and should continue to be used to ensure a future flow of revenues, but at a much reduced rate of duty' (Commission on Taxation, 2009)

#### ***4.7.1.1. Developing Thinking of the Commission.***

At the 11<sup>th</sup> March, the commission had reversed its position and the unpublished working papers state

'This paper proposes that the commission recommends that the recurrent tax system should fully replace stamp duty on residential housing. In other words stamp duty on residential housing should be abolished' (Commission on Taxation, 2009).

#### ***4.7.1.2. Final Recommendation of the Commission.***

The final recommendation of the Commission on Taxation was that stamp duty on the transfer of principal private residences be zero rated and the revenues be replaced by an annual property tax on principal private residences.

#### ***4.7.2. Influences on the Final Recommendation.***

The Commission quotes the National Economic and Social Council (NESC) June 2008 strategy report in support its rationale. (National Economic and Social Council, 2008)

The thrust of this recommendation was towards finding a more sustainable source of revenue than stamp duty, which fluctuated with the property market. However, the NESC strategy report was simply a recommendation to consider the proposal to replace stamp duty with an annual property tax and not a recommendation to do so.

Mr Brendan Hayes, member of the Commission, identified an OECD paper finding that transaction based taxes are particularly distortionary, as influential.<sup>8</sup> (OECD, 2008) This paper argues that transaction based taxes are of their nature more distortionary than other taxes. That is that the same amount of revenue can be collected with less impact on what the citizen would do had the tax not been in place. An interview with Dr Michael Collins, of Trinity College Dublin, provided further valuable insight. Dr Collins said that the OECD paper referred to was indeed influential. However, the developing economic situation also had a significant influence. At the start of considering tax reform, there was no real consensus on the need for an annual property tax. As the economic situation became clearer there was a general acceptance that a property tax would have to be part

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<sup>8</sup> Interview with Mr Brendan Hayes, member of the Commission on Taxation, 12<sup>th</sup> April 2010

of a solution. The collapse in revenue from stamp duty made it a less significant tax which was also unpopular

Dr Collins sees a combination of all of these factors as playing a part in the final decision. He pointed out that the final decision was to propose zero rating the tax rather than abolishing the tax. This left the door open to revisiting and made sure that no proposal was in place which could work to tie the hands of government on the issue.<sup>9</sup>

#### **4.7.3. Conclusion on Rationale of Commission- 3rd Research Objective.**

In coming to their conclusions the members of the Commission seem to have been influenced by a series of papers suggesting that the continuation of stamp duty had the potential to negatively affect both the property market and labour mobility. In addition the collapse in stamp duty revenues and the unpopularity of the tax were factors. The extent to which the reasons given are supported by evidence is examined as part of the next research objective,

#### **4.7.4. Evaluation of Impact on the Housing Market.**

The findings show that 43% of purchasers pay no stamp duty. An owner-occupier of a second property which is new pays stamp duty at a rate between zero and 2.25%.

In the case of 43% of purchasers (first time buyers) stamp duty has no impact. In the case of owner occupiers of new house the rate is a maximum of 2.25%. For a large percentage number of purchasers stamp duty is not a significant cost. It is one cost in the transaction of buying a house. Legal fees are also a charge. In the case of a seller there are also estate agent and advertising costs. Given the relative amount of costs it is possible that the public perception of the effect on the housing market is over stated

#### **4.7.5. Evaluation of Impact on Labour Mobility - National Council for Competitiveness Papers.**

The NCC submission to the commission repeats its earlier recommendation to replace stamp duty with annual property tax. (National Council for Competitiveness, 2008) Both submissions predated the introduction of the NPPR tax, so the recommendation covers all residential property. An examination of the secondary data, that is the published reports

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<sup>9</sup> Interview with Dr Michael Collins, member of the Commission on Taxation, 27<sup>th</sup> July 2010

of the NCC did not identify any research undertaken on transaction based taxes and their impact on labour mobility. In correspondence with the researcher, Ms Sylva Langford of the NCC confirmed that no specific research other than that contained in the reports published was undertaken.<sup>10</sup>

In an interview with the researcher, Mr Shay Cody, a member of the NCC and General Secretary of IMPACT trade Union, explained the NCC position more clearly.<sup>11</sup>

The NCC is primarily concerned with Ireland remaining a competitive economy in terms of jobs. Increased taxation on labour can interfere with the competitive strength of the economy. If the tax is applied to lower paid workers it can force them on to a social welfare trap, that is, it can make it uneconomic to come off social welfare and take a job. This is not competitive as it may interfere with the availability of labour. If the tax is applied to higher paid workers it can create a dynamic to replace the missing income. This puts upward pressure on wage rates which is also not competitive.

The main concern of the NCC is finding a stream of income, which avoids this. The position is more that they are in favour of an annual property tax as an alternative to higher labour taxes.

#### ***4.7.5.1. OECD Working Paper 'Tax and Economic Growth'***

This paper does indeed state that transaction based taxes are more distortionary as defined within the paper and set out at paragraph 4.3.3. However, Mr Cody cited in paragraph (4.3.7). , has identified taxes on labour as also distortionary. As the outcome of this research was inconclusive, further research was undertaken.

#### ***4.7.5.2. Labour Mobility in the Irish Context-Decentralisation.***

The most recent attempt in Ireland at large scale labour mobility is the decentralisation policy directed at moving significant numbers of civil and public servants from Dublin to the provinces. This was a policy introduced in the budget of 2003. It is accepted to have been unsuccessful, not least because of the reluctance of civil and public servants to move. Mr Sean O Riordain, retired General Secretary of the Association of Higher Civil and Public Servants, was a notable commentator on this initiative.. His view is that

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<sup>10</sup> E Mail from Sylva Langford, NCC, 16<sup>th</sup> June 2010

<sup>11</sup> Interview with Shay Cody , member of NCC, conducted by telephone on 7<sup>th</sup> July 2010

economic considerations were the lesser part in the refusal to relocate. Social considerations and career considerations were more important. In terms of social considerations the availability of universities in Dublin together with an existing social network were significant factors in a reluctance to relocate.

He identified a further factor, which had not existed to the same extent in very early decentralisation programmes. It is now usual that both partners in a relationship will be working outside the home. At the time of early decentralisation programmes, this was much less prevalent, so there was a much greater ability to move. In present social circumstances relocation could involve one partner at best putting a career on hold.<sup>12</sup>

#### **4.7.6. Conclusion on Evidence for Rationale- 4<sup>th</sup> Research Objective**

No evidence has been put forward to show that stamp duty as a single cost impacts excessively on the housing market. Given that 43% of purchasers pay no stamp duty and a further percentage of purchasers pay at a rate of 2.25% , the effect of stamp duty on the housing market has to be limited

On labour mobility the evidence for the conclusion of the Commission seems unconvincing. There has been no independent research undertaken which displaces the findings of the earlier research of Professor Oswald that home ownership as distinct from transaction based taxes negatively effects labour mobility.

#### **4.8. Annual Charges in the Irish System**

The property tax proposed in the Report of the Commission is an annual charge. There were similar charges in the past. (See 1.1.) However historic experience may be less useful than current experience. There is current experience on the annual charges. The charges which were examined are

- Commercial Rates
- Non Principal Private Residence Tax (NPPR)
- Water charges for commercial enterprises.

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<sup>12</sup> Interview with Sean O Riordain , retired General Secretary of AHCPs. Conducted by telephone, 20th July 2010

Two interviews were conducted with a view to capturing the experience of experts in these areas of administration.

#### **4.8.1.. Commercial Rates.**

Mr Garry Martin, Financial Controller, Donegal County Council, explained that this is a charge on commercial property, which is based on a valuation. The income goes to support local authority expenditure. Mr Martin finds that the absence of up to date valuations means that there is an inequity in the charge between properties, which have been recently built, and older properties. This makes the rates difficult to understand. In addition traders consider there is an imbalance in that most owners of residential property make no contribution to local authority funds, despite getting the benefits of local authority expenditure on services. There is resistance to paying from traders, which is influenced by all of the foregoing as well as the difficulty in getting the cash to pay in a time of recession.

Mr Richard Gibson, at the same interview, believes that the absence of an on line payment system or direct debit facilities makes the rates difficult to collect. Mr Gibson also explained that there is no automatic interest or surcharge for late payment, which can push this charge to the end of the queue in terms of payment. The fact that payment has to be enforced through the courts adds to the difficulty.

#### **4.8.2. Non Principal Private Residence Tax.**

This tax was introduced in 2009. It applies to all residences not being a principal private residence. It is a self-assessment tax charged at a flat rate €200 euro per property. The income goes to local authorities. Both Mr Martin and Mr Gibson outlined a much better compliance and payment experience with this tax. The yield has been well above that budgeted for 2009 and 2010 looks equally good. This pattern has been repeated in most local authorities that they are aware of. (Melia, 2010 b) They attribute the high success rate of this tax to a number of factors.

- It is easy to understand
- The amount is not high,
- Payment can be made on line



- Severe administrative penalty for late payment exist.

The penalty is €20 per month, which is an annual interest rate of 120%.

This becomes an automatic charge on the property which crystallises at the date the property is transferred. The property may not be transferred until this liability is discharged.

#### **4.8.3. Water Charges.**

The experience of Donegal County Council with water charges is different from the experience with commercial rates. Water rates are charged by a metre system. The metres are read by County Council Staff and customers are billed on usage. There is an allowance for domestic usage.

Mr Gibson believes that the fact that the charge is related to the services provided makes it more acceptable. The fact that the charge is metered makes it understandable. As in commercial rates, the absence of online payment and administrative sanctions leads to compliance issues.

Mr Aidan Fennessy of Tipperary South County Council has overall responsibility for every aspect of water management in the county. It has a reported compliance rate of 92 %. (Melia, 2010 a)The county has maintained a service based method of organisation rather than a functional based method of organisation. Every aspect of water management is carried out in under his direct management.

Mr Fennessy told me that most local authorities moved to a functional basis of organisation some years ago. That is supply, repairs and collection was separated. This service based system allows him to run water management like a small business. He knows his customers and ensures that his staff follows the same approach.

This means a very pro active customer service. He considers it critical that the customer identifies the person asking for payment as the same person who looks after supply, organises repairs and is available if there is a problem. This very strong link between the service provided and payment for the service is, in his view, important in securing

voluntary compliance, There is also on line payment available in Tipperary South and he would agree that ease of payment is very important.<sup>13</sup>

#### **4.8.4. Conclusion on Existing Annual Charges- 5<sup>th</sup> Research Objective.**

The experience in two very different organisations indicates the following critical factors in a successful annual tax.

- Good Customer Services in terms of information and response.
- Be easy to understand by those liable to the charge
- Should have easy payment options, particularly on line options
- Should be related to services provided in return for the charge.
- Should be seen to apply to all in the same relative position on an equal basis.
- Should have sanctions which can be enforced administratively

Tipperary South would see the organisational basis as very important in ensuring that the customer remained very conscious of the link between the service and the charge. The connection between service delivery and the charge is one which is also identified in the literature on local taxation. Mc Cluskey identifies it as important (Mc Cluskey, 1991) as does Vlassenko (Vlassenko, 2001). However, the question of local taxation is not the subject of this study.

#### **4.9. Annual Property Tax Proposed.- Key Features**

As already discussed the commission propose an annual property tax which is similar to the banded system in the UK. This system assesses the property charge based on the band into which the house value falls. Professor Plimmer has already been cited as finding this system ground breaking and very efficient, as it avoids the need for individual valuations. (Plimmer *et al*, 2002)The commission proposal is actually significantly different in that it envisages a self assessment system. Other key features of the proposed tax are

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<sup>13</sup> Interview with Mr Aidan Fennessy, Tipperary South County Council. County Hall , Clonmel, 9<sup>th</sup> July 2010

- The tax would apply to all domestic property.
- The tax would be charged on the owner of the property not the tenant.
- A data base of property values should be published to enable home owners to judge the value of their house.
- There should be a waiver for home owners on low income.
- There should be a deferral of tax where there is a temporary inability to pay
- Initially the tax should be a national tax with the rate set by central government but later this function should be devolved to local authorities.
- There should be a temporary exemption for those who paid high rates of stamp duty.
- There should be a wide range of payment options
- There should be access to service providers data bases to ensure tax compliance
- Tax clearance would be required as part of the sale of the property.
- Owners should self assess every three years

#### **4.9.1. Test for Fairness in Proposed Property Tax**

Although the tax is not implemented there is enough information to apply Vlassenko's model to the proposal.

- Horizontal equity is not exact in a banded system but there is a good degree of equity between people in similar situations. Broadly this test is fulfilled.
- Vertical Equity is recognised in the waiver principles.
- Equality before the law is not clear but assumed.
- Contributions from all owners is required
- Home owners must reassess every three to five years so regular re assessment of the base is incorporated.
- The system is transparent and easy to understand. See Appendix iii.
- There are easy payment methods in place

- As it is self assessed fair value is likely

Applying Vlassenko's model to the above findings on fairness there are 100% of the criteria fulfilled, which makes this a highly fair tax .See Figure 4.7.

#### **4.9.2. Test for Efficiency in Proposed Property Tax**

- The self assessment nature of the proposed tax with on line filing makes it cost effective.
- Based on the experience of the NPPR and the Commission projections it has the capacity to raise significant revenue.
- The taxpayer base is clearly defined
- The on line payment facility and the fact that the charge attaches to the property on subsequent sale facilitates ease of collection
- The administration of the system includes on line filing which facilitates ease of administration.
- Effective assessment of the tax base is aided by access to service providers' data bases eases
- A dispute mechanism is not addressed so this criteria is not fulfilled
- Access to service providers data bases facilitate building good records

Applying Vlassenko's model to the above findings on fairness there are 80% of the criteria fulfilled, which makes this a fairly efficient tax .See Figure 4.7.

#### **4.9.3. Conclusion on Proposed Annual Tax-6<sup>th</sup> Research Objective**

The findings suggest that the Commission has devised a tax, which is remarkably fair and fairly efficient, within the definitions used in this research.



**Figure 4.7- Application of Vlassenko’s Model of Fairness and Efficiency to Proposed Annual Property Tax**

Fairness	Outcome	Efficiency	Outcome
Horizontal Equity	Fulfilled	Cost effective	Fulfilled
Vertical Equity	Fulfilled	Revenue Raising	Fulfilled
Equality before the law	Fulfilled	Well – Defined taxpayer	Fulfilled
Those who benefit should contribute.	Fulfilled	Effective collection	Fulfilled
Regular reassessment of base	Fulfilled	Effective Administration	Fulfilled
Transparency and understandability in relation to law and administration.	Fulfilled	Effective assessment of the tax base	Fulfilled
Ability to pay mechanisms in place.	Fulfilled	Effective dispute mechanism	Not Addressed
Fair value based assessments.	Fulfilled	High quality tax records.	Fulfilled.

## **Chapter 5**

### **ANALYSIS OF FINDINGS AND CONCLUSIONS**

#### **5.1.Introduction**

The question which this chapter intends to address is the main research question. It is intended that the answer will be based both on the evidence gathered to arrive at of the findings in Chapter 4 and the review of the existing literature in Chapter 3.

The final research question is

‘Based on the findings from 1 to 6 above would a combined system of a positive rate of stamp duty and an annual property tax better achieve the objective of broadening the tax base with an equal degree of fairness and efficiency?,

#### **5.2. Broadening the Tax Base.**

This part of question concentrates on whether a positive rate of stamp duty together with an annual property tax is a more effective way of broadening the tax base than the recommendations of the Commission.

The findings demonstrated that up to 43% of residential property transactions were outside the tax base as a result of a series of exemptions and reliefs enacted .(Figure 4.3). Zero rating the principal private residences within the remaining transactions further erodes this tax base. It can be argued that this erosion is more than compensated for by the introduction of a new tax and this is a sustainable argument. However, it can also be argued that this is an unnecessary erosion of the base. The rationale for the erosion of the base contained in the Report of the Commission and cited at 4.2. of this dissertation is the potential effect on the housing market and the effect on labour mobility. However, the research of the evidence shows that stamp duty is only one factor in housing costs, and is not a factor at all for 43% of home purchasers.

The literature review indicates that any negative effect on labour mobility arises from home ownership as distinct from stamp duty. (Oswald, 1999) and (Van Ewijk and van Leuvensteijn, 2010)

In addition the primary research indicates that stamp duty was a non issue in the only recent attempt at large scale labour mobility in Ireland which was the decentralisation process announced in Budget 2003, dealt with at 4.7.3 of the chapter on findings.<sup>14</sup>

There is no doubt about the unpopularity of stamp duty<sup>15</sup> but it is arguable that the unpopularity of the tax comes from the lack of vertical and horizontal equity within the tax and the excess burden which the erosion of the base places on a small number of people engaged in buying a principal private residence.

The zero rating of stamp duty proposed is not of course abolition of the tax. However, it is questionable whether the distinction between zero rating and abolition would be clear to the public.

Should circumstances arise where a positive rate was required in the future, it is highly likely that the public and media perception would be that a tax was being re introduced.

Charging stamp duty at a positive rate on principal private residences means that more transactions are liable to tax than if the rate is reduced to zero. The positive rate charge therefore provides a broader tax base than the zero rate charge.

### **5.3. Fairness in Taxing Principal Private Residences.**

The answer to the 5<sup>th</sup> research objective has established that the Commission on Taxation has devised a proposed annual property tax which is remarkably fair.

There are two options for the level of taxation on the proposed annual property tax set out in Appendix iii. Both are reasonable by peer country standards but they have the capacity to be further reduced if stamp duty remains a source of revenue. A sample calculation is included at Appendix iii.

The question of when a waiver of tax and when a deferral of tax applies also would have to be clarified to ensure that the base was protected and that equity was maintained.

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<sup>14</sup> Interview with Sean O Riordain , retired General Secretary of AHCPs. Conducted by telephone, 20th July 2010

<sup>15</sup>



The conclusion on the 2<sup>nd</sup> research objective, suggests that stamp duty lacks horizontal and vertical equity.(4.4.3)

It would take very little to bring the tax up to a higher level of fairness. introduce horizontal and vertical equity , while broadening the tax base. Reducing the rate of stamp duty to zero certainly provides horizontal and vertical equity and deals with all ability to pay issues, but does it at the cost of eroding the tax base. Opting for a low positive rate of stamp duty, applicable to all purchases of principal private residences would also impose horizontal and vertical equity and would protect the base fully going forward, as there would be no ambiguity in the public mind on the existence of the tax.

Ability to pay issues could be addressed by putting in place a system of collection which was staged rather than an upfront payment as at present.

#### **5.4. Efficiency in Taxing Principal Private Residences.**

The findings in answer to the 2<sup>nd</sup> research objective demonstrated that stamp duty was a very efficient tax within the definitions used.

The recommended annual tax is found to be fairly efficient within the definitions. To bring it up to very efficient would simply require putting in place an independent appeal procedure.

However the question of whether the proposed tax meets the definitions of efficiency identified by the answers to the 5<sup>th</sup> research objective has to be considered. Four of the six features of an efficient annual tax identified in the primary research are encompassed by the commission recommendations. These are

- The tax is easy to understand by those liable to the charge. (See proposed rates at Appendix iii).
- Easy payment options including on line options are envisaged
- It applies to all in the same relative position on an equal basis.
- There is provision for an administrative charge for non compliance.

These features replicate features also identified in the literature review and used in Vlassenko's model. (Vlassenko, 2001)

Of the remaining features good customer services in terms of information and response can't be examined until the tax is in place.

In terms of a relationship to services provided in return for the charge there is a proposal to devolve the income and the rate setting capacity to local authorities within the Report of the Commission on Taxation.

Devolving the income allows a link with services to be made. However, devolving the rate setting capacity could interfere with horizontal and vertical equity given past experience. (Paragraph 1.1.)

### **5.5. Conclusion – Primary Research Question**

Based on the findings and the analysis of the findings the alternative proposal to maintain a positive rate of stamp duty with an annual tax is a more successful method of broadening the tax base in a fair and efficient manner than the final proposal of the Commission on Taxation

## **Chapter 6**

### **RECOMMENDATIONS**

#### **6.1. Recommendation on the Structure of a Property Tax.**

Based on the findings a positive rate of stamp duty levied on the transfer of principal private residences together with an annual property tax as envisaged by the Commission on Taxation is found to be the best method of broadening the tax base in a fair and efficient manner.

Stamp duty should be levied on all such transactions but at a lower rate.

#### **6.2 Recommendation on Administrative Arrangements.**

An independent appeal system should be included in the administrative arrangements for a new annual property tax.

#### **6.3. Recommendation on Rate Setting Function.**

This should remain a function of central government to preserve horizontal and vertical equity and avoid the problems, which arose with domestic rates in the past.

#### **6.4. Recommendation on Use of Income**

Part of the income should be devolved to local authorities to enable a link with service provision.

#### **6.5 Recommendation on Rate of Tax.**

This should be revised downward to take account of falling property values and additional revenues from a positive rate of stamp duty. (Appendix iii)

## **6.6. Recommendation for Further Study**

A study of the effect on local authority funding arising from the absence of an administrative sanction for non payment of commercial rates and water charges would be a fruitful area of further study.<sup>16</sup>

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<sup>16</sup> In an E Mail from R Gibson, Donegal County Council, dated 29<sup>th</sup> June 2010 Commercial Rates outstanding were €6,519,004 at that date. Water rates outstanding were Circa €8.3m

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## **Appendix i**

### **Calculation of Comparative Rates of Property Tax**

#### **EU Peer Countries**



## Calculation of Property Tax Rates

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### Spain

In the case of Spain there is a wealth tax applied on property where assets are significant. There is also a 3% property tax applied on the assessed value of property owned by non residents. Effectively, there is no annual property tax on average owner occupied properties and I have treated the tax at 0% (International Bureau of Fiscal Documentation, 2008)

### Greece

While Greece has property tax, properties which are principal primary residences having an area of less than 200 sq metres and values at less than €300,000 are exempt. As in the case of Spain it is treated as effectively not having a property tax on principal private residences. (International Bureau of Fiscal Documentation, 2008)

### Belgium

In the case of Belgium, cadastral value is used, which an imputed rental value charged at 30%. I have taken a figure of 5% of market value as an average rental value and charged this at 30% to give an outcome of 1.5% (International Bureau of Fiscal Documentation, 2008)

### France

In France there is a range of annual property taxes, regional and local. I have used a property in Paris, advertised for sale at €550,000 and having advertised property taxes of €450, which is equal to .8 per cent. (McGuire, 2009)

### United Kingdom

In the UK the original rate of banded taxes set in 1991 had a maximum charge of 2%t That figure has been used.. (What Price £ ?, 2010)

**Figure AI. UK Property Tax Bands**

Band	Value	Council Tax
	Less than £40,000	£800
B	£40,000 to £52,000	£1000
C	£52,000 to £68,000	£1200
D	£68,000 to £88,000	<b>£1,234</b>
E	£88,000 to £120,000	£1500
F	£120,000 to £160,000	£1750
G	£160,000 to £320,000	£2000
H	Over £320,000	£2500

\*This council tax band of a property is its 1991 value.

**Denmark, Austria, Sweden and Italy.**

For Denmark, Austria, Sweden and Italy, I have relied on the reported rates included in the unpublished working papers of the Commission on Taxation. (Commission on Taxation, 2008)

**Finland**

For Finland I have taken the information from the Official revenue website, which provides an English version. (Vero Skat, 2010)

**Other Countries**

In the case of all other countries I have relied on the publications of the Global Property Guide. (Global Property Guide, 2009)

## **Appendix ii**

### **Calculation of Effect of Exemptions on Stamp Duty Tax Base**

## Calculation of Effect of Exemptions and Reliefs for Stamp Duty on the Tax Base and Tax Rate

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### **Effect on Tax Base**

The Department of the Environment publish annual statistics on the details of the housing market. Department of Environment statistics for 2007, the last complete year available at the inception of the Commission on Taxation shows that 88,747 loan approvals for the purchase of residential property, new and second-hand, were sanctioned by all lenders. (Department of Environment, 2008, Pg 59)

### **Overall Residential Property Purchases 2007**

This would have included purchases of residential property where no loan was drawn down. However, no figures are published on cash buyers of residential property and the figure is not likely to distort the overall picture as the figures are calculated on loan approvals. (Department of Environment, 2008)

On this basis the 88,747 loan approvals made by all lending agencies in 2007 is taken as representing the total purchase of residential properties in 2007. Properties purchased

88,747

### **Small Dwellings Relief**

There are no statistics available for relief for Small Dwellings but 4% of total residential property purchases is a very conservative estimate in the year in question.

Using 4% to represent smaller apartments purchased in that year by owner occupiers, not already eligible for first time buyer relief gives a figure of about 3500 properties.

Small Properties Relief

3,500

### **First Time Purchasers Relief**

36% of all residential property in the state was bought by first time purchaser's in 2007. (Department of Environment, 2008, Pg 68)

On this basis up to 40% of the total purchases of residential property (88,847) were outside the tax base in 2007. This gives a further 34,499 property transactions not liable to stamp duty.

First Time Purchasers Relief                      34,499

(Department of Environment, 2008)

## **Appendix iii**

### **Proposed Rates of Annual Property Tax**

### Annual Property Tax Rates Proposed

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The Commission on Taxation Report sets out the proposed rates of a new annual property tax .

Figure A1 shows the rate struck at .25% of the band midpoint.

Figure A2 shows the rate struck at.35% of the band midpoint.

The Commission did not specify a rate for the highest value houses

Figure A3 shows the effect on collection of reducing the tax in each band and putting in a flat rate tax in the highest band.

Figure A2- Recommended Rates of Annual Property Tax

Option 1

Report of Commission on Taxation (Pg 166)

**MidBand Value at.25%**

	Valuation band	No. of Houses
	€	
A	0 - 150,000	140,000
B	150,001 - 300,000	1,165,000
C	300,001 - 450,000	330,000
D	450,001 - 600,000	120,000
E	600,001 - 750,000	30,000
F	750,001 - 1,000,000	11,000
G	1,000,001 - 1,500,000	2,000
H	1,500,001 and higher	1,000
	<b>Total</b>	<b>1,934,000</b>

Figure A3- Recommended Rates of Annual Property  
Tax

Option 2

Report of Commission on Taxation (Pg 166)

**MidBand Value at .35%**

	Valuation band	No. of Houses
	€	
A	0 - 150,000	140,000
B	150,001 - 300,000	1,165,000
C	300,001 - 450,000	330,000
D	450,001 - 600,000	120,000
E	600,001 - 750,000	30,000
F	750,001 - 1,000,000	11,000
G	1,000,001 - 1,500,000	2,000
H	1,500,001 and higher	1,000
	<b>Total</b>	<b>1,934,000</b>



Figure A4-  
Calculation of Flat  
Rate Charge

<b>Reduced Flat rate applied to Band</b>
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	Valuation band	No. of Houses
	€	
A	0 - 150,000	140,000
B	150,001 - 300,000	1,165,000
C	300,001 - 450,000	330,000
D	450,001 - 600,000	120,000
E	600,001 - 750,000	30,000
F	750,001 - 1,000,000	11,000
G	1,000,001 - 1,500,000	2,000
H	1,500,001 and higher	1,000

## **Appendix iv**

### **Interviews in Chronological Order**

Mr Brendan Hayes, Labour Court and Member of Commission on Taxation

Mr Gary Martin & Mr Richard Gibson, Donegal County Council

Mr Michael O'Hanlon, Revenue Commissioners

Mr Aidan Fennessy, Tipperary South County Council

Mr Shay Cody, General Secretary, IMPACT Trade Union Member of National Council for Competitiveness

Mr Sean O Riordain, Retired General Secretary, AHCPs Trade Union

Dr Michael Collins, TCD and Member of Commission on Taxation

12<sup>th</sup> April 2010

Interview-Brendan Hayes. Labour Court, Dublin.

Mr Hayes, a former official of SIPTU, served as a member of The Commission of Taxation, 2008-2009.

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We discussed the overall brief of The Commission, with particular reference to the requirement to keep Ireland a low tax economy. Mr Hayes agreed that this was by its nature inhibiting in terms of the options open for consideration. The requirement to keep Corporation Tax at 12.5% was a further restriction on areas available for recommending reform.

The nominal rate of Corporation Tax is low and the effective rates of Corporation Tax are even lower, but this tax was effectively off the agenda from the setting up of The Commission.

**Property Taxes- Buildings Tax or Land Tax.- Equity and Broadening the Tax Base.**

In terms of property taxes Mr Hayes expressed the view that Land Taxes represented the fairest and most equitable form of annual taxation. The inequity he saw in applying taxes solely to residential buildings rather than land was that vast amounts of capital assets escaped taxation creating an inequity. For example a farm worker could pay an annual tax on a very modest property and while the landowner would also pay tax on his/her residence, there would be no tax chargeable on the land, which created an inequity.

Confining a new annual property tax to residential buildings only ( Commercial Buildings are already subject to annual tax charges- Rates) , leaves the tax base unnecessarily narrow in that vacant building land and farm land escape both the existing commercial charges to rates and would also escape taxation on a proposed new tax confined to owner occupied residential property.

The Commission did examine the land tax option but concluded that the absence of a detailed database on land value could make this a long term option and that a tax on housing using the banded system, which was adopted by the Commission had the capacity to be introduced over a much shorter time frame.

Mr Hayes did not necessarily agree that the land tax option was as long term as the Commission concluded. There are other existing data bases which could be utilised to provide a data base.

This is the subject of study at present by Smart Tax .., under the auspices of the Department of the Environment.

**Property Taxes- Ability to pay annual charges.**

A further argument raised in the context of land taxes was ability to pay issues. It was argued that an individual could be asset rich but cash poor. For example an elderly person's own private residence could have become a very valuable asset over the passage of time but the person could now be living on a fixed income.

Nevertheless this asset represented a significant increase in wealth, which was enjoyed under the protection of the state and it was equitable that the state should receive back a contribution towards the protection which it gives. This protection in itself contributes to the enhancement of the value of the asset by the provision of public services such as access to and maintenance of roads, public lighting and policing. It is then reasonable to expect that the community, which has funded the provision of these services, gets a return on its investment in terms of an annual contribution.

Mr Hayes does not see the “cash poor” issue as insurmountable and identifies the provisions of the “fair deal” scheme in the Health Service as pointing a way forward.

The argument which is made in terms of the enhanced value of a private residence can be made with equal effect for land held either as vacant land or farming land. The rates at which the tax would be applied and what deductions could be available are matters of detail. Within the context of enjoying the benefits of an enhanced value asset, which enhancement is partly funded by the community, Mr Hayes sees it as unreasonable to view the associated taxation as a burden. It is a return to the community on its investment. Given that land values as well as house values, have fallen as a result of the recent property crash, this is an opportune time to introduce such a tax as the charges would be lower than when land values were artificially high.

### **Commission Proposal on Annual Property Tax.**

The Report itself identifies a number of the reasons for proposing an Annual Property Tax.

During the property boom of the last decade the economy became overly dependent on Stamp Duty as a Revenue Stream.

The Stamp Duty itself suffered erosion in its base with several exemptions introduced during the same period. At the same time other taxes on property and wealth were also reduced. These included increases in the exemption thresholds on Capital Acquisitions Tax on the transfer of property and significant exemptions on the transfer of farms and business.

A replacement income stream was needed. Local Authorities were particularly concerned about their ability to fund services into the future and saw a local tax on property as an option, which was successful in other jurisdictions.

### **Exemptions.**

The Commission members recognised that exemptions eroded the base and were undesirable. The only exemption which they saw as equitable was an exemption for local authority tenants.

### **Annual Property Tax and Stamp Duty.**

The intention of the Commission is that Stamp Duty be reduced to zero not abolished. This leaves the capacity to use a combined system at a future date.

In terms of broadening the tax base an Annual Property Tax (Given the reservations on a buildings tax as distinct from a land tax) has a number of advantages.

The take from the tax is repetitive and predictable and not subject to the vagaries of selling prices of property as is Stamp Duty.

Nevertheless, Mr Hayes agrees that there is not a lot to be gained in terms of broadening the tax base by introducing an Annual Charge if the tax base is narrowed elsewhere in the system by reducing the Stamp Duty on all owner occupied residences to zero.

However, The Commission anticipated resistance to a new tax and took the view that there had to be a carrot in the form of a lessening of the contribution elsewhere in the system to get the necessary degree of public acceptance.

Some of this was driven by expectations raised earlier on by statements from commentators and some Government Ministers on the likely abolition of Stamp Duty.

### **Transaction Based Taxes and Labour Mobility.**

Mr Hayes did not see the reported submission of the National Council of Competitiveness as a critical intervention in moving The Commission towards the recommendation to zero rate stamp duty.

From his recollection this matter was contained in OECD Reports considered by The Commission.

He has no knowledge of any independent study carried out on comparative levels of labour mobility in countries which use transaction based taxes on the sale of private residential property and those that do not.

### **Source of Documents Used.**

Apart from submissions from interested parties the documents used by The Commission were provided by The Secretariat.

Mary Farrell

12<sup>th</sup> April 2010

Interview with Garry Martin- Financial Controller- Donegal County Council

Richard Gibson- Staff member attached to his office

21<sup>st</sup> June 2010- At County House , Lifford. 4 p.m.

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### **Non Principal Private Residence Tax.**

Both Mr Martin and Mr Gibson considered this tax a great success. They measured the success by the fact that the number of people self assessing was higher than expected as was the yield from the tax.

They attributed the success of the tax to a combined Customer Service and Compliance Policy as well as the factor of “understandability” , by which they mean that the public can understand who is liable ( all owners of a residence in the state, which is not a principal private residence) at a flat rate of €200.

### **Customer Service.**

The rate of the tax and the conditions for liability were well advertised in National media by the Department of the Environment. Donegal County Council did a parallel media offensive using local radio and also Northern Irish media outlets to access owners resident in Northern Ireland.

Electronic methods of payment were available, particularly on line methods of payment.

In evaluation responses Donegal County Council identified significant numbers of owners from Northern Ireland and owners from countries as disparate as the United States and Nigeria.

Of all payments received 80% were made on line. This is very valuable as it allows targeted follow up customer services in future years. On line reminders of the due date are sent out via e mail.

Mr Gibson observed that the tax at €200 p.a. is very modest in comparison to domestic rates in Northern Ireland.

### **Compliance .**

There is a set payment (surcharge-interest) for late payment. This is a flat rate of €20 per month which is a percentage rate of 140%. This is a significant deterrent to late payment or non payment.

If this deterrent was not sufficient to encourage compliance there is a further deterrent. A property liable to NPPR can't be registered in the name of a new owner until the charge including the surcharge is cleared.

### **Non Compliers.**

The legislation governing the introduction provided for access to further information in relation to tracing non compliant liable persons/property. There is access to the ESB data base, the PRTB data base and the An Post data base. This data will be married to the County Council data base of NPPR properties/owners. To identify second homes not in the NPPR tax net.

### **Opinion of Mr Martin and Mr Gibson.**

Both Mr Martin and Mr Gibson identify this as a very successful tax. They identify the following reasons.

- 1- Understandability. The flat rate nature of the tax and the absence of exemptions make it easy to understand.
- 2- Electronic Payments. This is an easy method of payment and the use of the credit card, which has a lower rate of interest than 10% per month makes this option attractive.
- 3- Tough Sanctions. This is seen as a considerable aid to the success of the tax.

### **Water Rates**

These are levied on non domestic water usage. The success of these charges is less than the success of the NPPR.

Mr Martin and Mr Gibson identified a number of reasons for this.

### **Customer Service**

The charge is a flat rate of €175 for the metre with 50,000 gallons of water free. Water is then charged by consumption. This generates a bill, every quarter, six months or annually depending on the arrangement with the consumer.

The bill can be paid in person and debit or credit cards can be used. On line payment is not available.

Apart from the absence of on line payment the customer service in water charges is not very dissimilar to the customer service in the NPPR tax. It is however much more expensive to administer.

### **Compliance**

There is no monetary sanction for late payment which means there is no incentive to pay in time. This can push the water charges bill well down the list of business priorities of the liable person.

The main sanction available is to cut off the service. However, if there is any element of domestic usage this requires an application to the High Court, which is time consuming and expensive.

Where this is not an option the only other recourse open to the Council is to pursue the charge via the Courts. This requires the use of an external solicitor and is also expensive and time consuming.

### **Non - Compliers.**

Donegal County Council undertook a significant operation on a county wide basis to identify non domestic water usage, install metres and issue bills. Between 2006 and 2010 the number of liable persons increased from 4000 to 10,000 an increase of 150%. This increased the yield from these charges from €6 mil to €9 mil an increase of 50%.

However, as they are dealing with a tranche of customers who are traditionally non compliant they are working on changing behaviour. This has had the effect of reducing the overall percentage of compliance with these charges in the county.

### **Opinion of Mr Martin and Mr Gibson.**

In considering the different uptake on the two taxes both Mr Martin and Mr Gibson identify the absence of effective sanctions for late payment or non payment of water charges as a disincentive to compliance. Mr Gibson believes that on line payment, present in NPPR tax, is also important in increasing rates of compliance. He quotes as an example his own recent experience of getting a parking fine outside the county. He paid this promptly as he had the on line payment option but would have taken more time if he had to fill in forms and post them or go to his bank.

### **Commercial Rates**

We did not go through this charge in detail but I asked Mr Martin and Mr Gibson if they could identify anything in this charge which would shed further light on what made for a good local tax which is broadly based, equitable and effective.

Mr Gibson said there was resistance to these charges by the business community as they were considered to be highly inequitable. There was no linkage to services as with water charges. Other services provided by the County Council were seen to apply equally to domestic and business consumers but the domestic user enjoyed the services free of charge.

The basis on which the rates were calculated also caused a problem. It was based on a valuation of the property which was significantly out of date and this created anomalies between properties which were in the system at the time of the previous valuation and those which came into the system after that date.

The complexity of the valuation system led to a lack of “understandability” which compounded resistance to compliance.

### **Customer Services**

The customer services are similar to those provided to those chargeable to water charges. There are the same options on payment.

### **Compliance**

There are no charges to interest or penalties for late payment which has the same effect as in water charges in putting this down the list of priorities for business. The means of redress includes action by the sheriff but this has been found ineffective. This leaves the



alternative of Court action. Mr Martin expressed admiration for Revenue powers in relation to penalties but said that it helped put local authorities as the bank of last resort.

### **Payment Options**

I asked Mr Martin and Mr Gibson if a wider range of payment options, e.g. monthly payments, “Bill Pay” in addition to on line payment would be helpful in increasing compliance. This was not something which they saw as significant.

### **Conclusion**

An effective annual charge should have

- 1- Good Customer Services in terms of easily disseminated information.
- 2- Be easy to understand by those liable to the charge
- 3- Should have easy payment options, particularly on line options
- 4- Should be seen to apply to all in the same relative position on an equal basis.
- 5- Should have sanctions which could be enforced administratively

Mary Farrell

21<sup>st</sup> June 2010

Interview with Michael O Hanlon

Assistant Principal- Revenue

Stamping Davison

Stamping Building

Dublin Castle

23<sup>rd</sup> June 2010

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Mr O' Hanlon outlined the history, background and the basis on which Irish Stamp Duty is charged.

He explained that Stamp Duty actually started in the Netherlands, not the United Kingdom, as is commonly believed. It was a consequence of the Dutch explorations and expansion in South East Asia, where large tracts of land were acquired by Dutch Citizens. The Dutch Crown was naturally keen to get some financial benefit from this activity and introduced the concept of stamp duty. It is important to recognise that Stamp Duty is a payment to stamp a document not a tax on the item which is the subject of the exchange. The idea of Stamp Duty was imported to the United Kingdom on the accession of William, Prince of Orange, and also to the English Throne. Following the Battle of the Boyne in 1690 large tracts of land in Ulster were distributed to officers and soldiers in William of Oranges army, in payment for military service. William introduced Stamp Duty on the documents conveying these lands and it subsequently became a normal part of conveying in Ireland.

Stamp Duty followed the expansion of the British Empire and was found in almost identical form in any jurisdiction which had a British administration.

#### Nature of the Tax

This tax differs from other taxes in that it is a tax on a document. To make the tax work requires that the document effectively acquires the characteristics of a taxpayer and is issued with a Revenue reference number. The amount of tax which is paid hinges on six criteria. These are

- Type of Instrument
- Type of Property ( Real)
- Type of Contract
- Amount of Consideration
- Any Reliefs
- Date of Execution.

These six criteria in combination amount to one hundred and fifty three possible variations.

### **Administration of Stamp Duty.**

Up to December 2009 each document was physically stamped by a staff member of the Revenue, who calculated the liability, any one of the one hundred and fifty three variations mentioned, and attached an embedded holographic stamp on the document. This was very heavy in terms of resources and led to long queues of solicitors waiting to process documents.

Revenue took a decision to put the administration of Stamp Duty on an electronic basis, called E Stamping. It was already mentioned by Mr O Hanlon, that the system of Stamp Duty followed the British Empire. When Irish Revenue considered developing E Stamping, it examined other former British Empire jurisdictions to see if any of them had developed such a system. It discovered that Singapore had such a system, which Irish Revenue examined.

The system used in Singapore was felt to be less secure than desirable as it included a private company in the processing. It was anticipated that Irish Solicitors and the Property Registration Authority (former Land Registry) would want absolute assurance on security before they would buy into E Stamping.

Consequently, Irish Revenue decided to develop in house, and with sufficient security features to get the support of all stake holders.

### **E Stamping**

The system works through the Revenue On Line Service (ROS) . It can be accessed by any member of the public off line to calculate possible Stamp Duty.

There are six basic screens which follow the six criteria

- Type of Instrument
- Type of Property ( Real)
- Type of Contract
- Amount of Consideration
- Any Reliefs
- Date of Execution.

These allow the user to dig down using a series of interactive screens. The calculation of the possible one hundred and fifty three variations is done electronically, behind the screen, and the user can produce an accurate estimate of probable stamp duty.

Live usage of the system can only be accessed by legal practitioners registered with Revenue. Even with this there are a series of security barriers to prevent fraud including a weekly batch check of transactions. Payment of the Stamp Duty is also done by electronic means.

### **Implementing E Stamping.**

The system is in place less than six months and Mr O Hanlon advises that the take up on E Stamping is 84%, which is much higher than the take up on other taxes at a similar phase of introduction. Mr O Hanlon attributes the success of the roll out of E Stamping to the policy adopted by Revenue of educating the end users. In doing this Revenue recognised that solicitors and partners in legal practice would be likely to delegate input to law clerks or legal technicians. Revenue decided to target this group for training and educating. It was seen as very important to get them on side as they were a group who could have seen E Stamping as a threat to future employment. By building their expertise in ROS E Stamping any perceived threat was counteracted, the staff in question bought into the system and Revenue had a very skilled resource outside its own office capable of using the system effectively.

### **Effects of E Stamping**

Of the 24,032 conveyance transactions filed between 30 Jan 2010 and 30 Jun 2010 20,263 were filed and stamped using the E Stamping system.

€14 million Euro was transferred electronically to Revenue. The cost of developing the system was €1 million. Mr O Hanlon estimates that the system will pay for itself in a 24 month time frame. The fact that the electronic system can allow the customer self service access, do complex calculations and receive money electronically has led to staff savings of fifty people, who are to be assigned to other Revenue duties including audit of stamp duty. Consumables used by the older system and servicing of the machines of €600,000 will be saved annually. The tax is now very effective and cheap to administer.

The introduction literally ‘slashed costs’

### **Evasion**

In our first interview Mr O Hanlon had identified the requirement to have the instrument of conveyance stamped before title to property could be transferred as critical in supporting strong compliance. We discussed evasion and audit.

Evasion is most likely to occur by understating the value of the asset being transferred or wrongful claim for exemptions. Some of the staff now released will be transferred to audit duties in E Stamping to monitor for possible evasion.

**Deterrent to Late Filing**

There are significant penalties and interest charges which act as a disincentive.

Mary Farrell

23<sup>rd</sup> June 2010

Interview with Shay Cody, General Secretary designate, IMPACT trade union and member of the National Council for Competitiveness (NCC)

7<sup>th</sup> July 2010- 2.15 p.m. Conducted by telephone.

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I explained to Mr Cody that I was interested in the NCC submission to the Commission on Taxation, which had recommended that stamp duty be abolished and replaced by an annual property tax. The rationale was that stamp duty could have a negative effect on the labour market. I had established from Sylva Langford of the NCC, that no independent research had been carried out on this connection, and I asked Mr Cody if he could give me an insight into NCC thinking.

Mr Cody explained that the main focus of the NCC was ensuring a competitive economy. It was very clear that there was a problem with falling stamp duty receipts and there was overdependence on stamp duty as a source of revenue.

A new revenue stream was urgently required to replace this loss of revenue.

There were a number of options, one of which was increasing the contribution from labour, possibly by bringing previously exempt workers into the tax net. This could create problems in terms of competitiveness.

If the worker was in the lower pay band of the exempt category there was a danger of creating a social welfare trap. That is, it could be more beneficial to go on social welfare than remain in employment. This interfered with the supply of labour and was contra competitive.

If the worker was in the higher pay band of the exempt category, where it was still more beneficial to remain in work, a dynamic to replace the lost income could be created. This put upward pressure on wage rates, which was also contra competitive.

The view of the NCC is that a property tax is less distortionary in terms of the impact on the labour market.

He said he sees the point about labour mobility and stamp duty but would be more concerned, from a competitive perspective, about a transfer of the lost revenue from stamp duty to taxes on labour.

Mary Farrell

7<sup>th</sup> July 2010

Interview with Sean O Riordain, retired General Secretary of the AHCPs trade union, and retired member of the board of the Institute of Public Administration.

20<sup>th</sup> July 2010 at 3 p.m. – Conducted by telephone.

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I spoke with Mr O Riordain by arrangement. I had explained to him that I was conducting research for a dissertation on property tax. In the course of this research I had seen some argument to the effect that stamp duty on residential property was a barrier to labour mobility.

As Mr O Riordain was a noted commentator on decentralisation in the context of the Irish public sector I was interested in getting his opinion on why that initiative failed in persuading civil and public servants to move.

Mr O Riordain explained that his association had two areas of concern.

These were good public administration and the legitimate expectations of the members.

Under good public administration his association considered the plan to move entire departments from the seat of government in the capital would fragment the public sector to an extent that it would make good governance almost impossible. The loss of corporate memory through “churning” staff from one department to another was also a significant factor. The actual proposed locations of certain departments made little sense, for example, moving the Department of the Marine to Cavan, an inland county seemed extraordinary.

The AHCPs was so concerned at proposal generally that it commissioned two reports, by Brian Barry of Burnham House management consultants on the issues arising for good public administration.

In terms of members resistance to relocating Mr O Riordain said economic issues were very far down the agenda for members and came in behind social and career considerations. He, as General Secretary, of the AHCPs met every single branch of the organisation to discuss decentralisation. On social considerations Mr O Riordain found that proximity of family and social networks, existing school arrangements and the availability of a large number of third level institutions made Dublin more attractive than any alternative provincial location.

In terms of career structure, Mr O Riordain found that members believed even if they moved on promotion that it would be the last promotion of their career as the reality would have to be that Assistant Secretary posts would still be filled from a Dublin cohort.

Economically, if someone sold a house in Dublin at that time, 2004 to 2006, and bought in the provinces there was a good chance that they would have cash to spare. However, if

they wanted to go back to Dublin there would be a reversal of that situation. In the context the cost of selling was of course a factor but not a significant factor.

Mr O Riordain offered another point, which he felt was very important in the context of decentralisation and labour mobility generally. He referred to the decentralisation of the Department of Education to Athlone; in what he thought was the 1980's sometime. He was General Secretary of the AHCPS at that time also. There were far fewer problems with that decentralisation. In retrospect he believes what changed in the intervening period was the increase of both partners outside the home.

To maintain the standard of living on moving meant that two jobs had to be found contrasting with an earlier time period, where only one partner had to find work to maintain the existing standard of living.

Mary Farrell

20<sup>th</sup> July 2010



Interview with Dr Michael Collins, Department of Economics, Trinity College Dublin, and a member of the Commission on Taxation.

27<sup>th</sup> July 2010 at 3.30 p.m. – Conducted by telephone.

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Dr Collins was a member of the Commission on Taxation and as such had received a copy of questionnaire. He contacted me by E Mail 20<sup>th</sup> July and offered assistance if the deadline for submission of the dissertation had not expired. I telephoned Dr Collins by arrangement on Monday 27<sup>th</sup> July.

Dr Collins explained that when the Commission on Taxation was set up the extent of the Irish economic problem was not fully clear. The extent of the collapse in revenue from stamp duty was not fully quantified and the necessity to find new sources of revenue to fill that gap was not fully accepted.

At the start of proceedings only a small minority of members of the Commission favoured a property tax of any kind.

He told me that it was only as the extent of the economic crisis becoming apparent that the balance of opinion moved towards favouring a property tax. Dr Collins told me that his own preferred option was a land or site value tax, but that was not a position which had widespread support mainly because of valuation difficulties.

We discussed comparative problems with the New Zealand tax base and the recommendation of the Wellington University group on a land tax as well as the out of hand rejection by the New Zealand parliament.

Dr Collins also mentioned that when the idea of a property tax was taken on board an early suggestion was that it be called a “Banded Tax”. However, this was promptly dropped when it was pointed out that it lent itself to an acronym called “BAND-T”, which was not the image the Commission wanted to convey. Annual Property Tax ‘APT’ was a much better option for a name.

Dr Collins identified the OECD paper as significant in forming the views of the Commission.

When it was decided that the property tax, would be a banded system, the next area of discussion was whether it would be on an assessed basis or a self assessed basis.

There was some initial resistance to a self assessment basis but it was accepted that it was the most effective method of introducing a property tax quickly.

We discussed whether a property tax could be introduced in the next budget in logistical terms. Dr Collins view is that this could be readily done and done in a way which incorporated all of the Commission’s recommendations on ease of payment including on line payment and collection through the tax credit system.

If Revenue needed time to put a collection system in place via tax credits, his view is that it would be worth deferring the commencement of the tax until the collection system was in place, an even “taking a hit” in year one by just collecting a proportion of the tax on a pro rata basis from the date of commencement of the collection system to the end of the year.

On the dual system Dr Collins pointed out that the Commission had not proposed the abolition of property tax but had proposed that this be zero rated. This is an important distinction as it does 'not tie the hands' of future governments in that the rate can be increased without a need to put completely new legislation on the statute books.

The reasons for the Commission's decision, he believed was the fact that the property tax could generate €1 Billion. Revenue from stamp duty 'had imploded overnight' making it a much less important tax in terms of revenue income. It was a highly unpopular tax and the Commission wanted to take a 'start from scratch' approach.

Dr Collins agreed that I could use this material for my dissertation.

Mary Farrell

27<sup>th</sup> July 2010.

## **Appendix v**

**Pre Interview Documentation issued.**

**Garry Martin & Richard Gibson**

## EXISTING ANNUAL TAXES-LOCAL AUTHORITIES.

### Basic Information

Tax Type	Basis of Charge	Set By	Rate p.a.
NPPR	Flat Rate	National Parliament	
Water Rates	Charge by measure	Local Authority	
Commercial Property rates			

## NON PRINCIPAL PRIVATE RESIDENCE TAX

### Customer Service Information

Are customers advised of the tax applicable?	
How is it done?	
Is notice of due date given?	
How is it done?	
What methods of payment are available?	
Direct Payment?	
Credit Card/Debit Card?	
Instalment Payments?	

I know there is no arrangement to have the tax collected via the Income Tax system and then transferred to Local Authorities. If such an option existed would it make it easier for those chargeable to comply with their obligations?

### Information on Non Compliance- Payments

Is there a follow up on outstanding /late payments?	
Is there a reminder system for outstanding/late payments?	
Is there a demand system for	

outstanding/late payments?	
Is there an interest charge for late payments?	
Is so what rate of interest per month?	
Can the debt be enforced?	
If it can be enforced is it by	
Collection by demand only?	
Court Action followed by collection?	
Where collection systems exist are they carried out by	
Council Staff?	
Third Party?	
If a third party –Who is it?	

#### **Information on Non Compliance- Returns**

Is there a system to identify non engagers?	
How does it work?	
Can an estimate of tax due be raised on non engagers?	
If so is there an appeal system?	
Can any estimate made be displaced by submitting a return and payment?	
If no appeal system can the estimated tax be enforced?	
Can it be enforced post appeal?	
Does enforcement require Court Action?	

#### **Information on Non Compliance- Measurement**

Is there a system for measuring non compliance?	
How does it work?	
What is current debt outstanding?	

What is estimated amount of non engagers?	
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## **Appendix vi**

### **Pre Interview Documentation Issued to Aidan Fennessy**

## WATER RATES

### Customer Service Information

Are customers advised of the tax applicable?	
How is it done?	
Is notice of due date given?	
How is it done?	
What methods of payment are available?	
Direct Payment?	
Credit Card/Debit Card?	
Instalment Payments?	

I know there is no arrangement to have the tax collected via the Income Tax system and then transferred to Local Authorities. If such an option existed would it make it easier for those chargeable to comply with their obligations?

### Information on Non Compliance- Payments

Is there a follow up on outstanding /late payments?	
Is there a reminder system for outstanding/late payments?	
Is there a demand system for outstanding/late payments?	
Is there an interest charge for late payments?	
Is so what rate of interest per month?	
Can the debt be enforced?	
If it can be enforced is it by	
Collection by demand only?	
Court Action followed by collection?	
Where collection systems exist are they	



carried out by	
Council Staff?	
Third Party?	
If a third party –Who is it?	

### **Information on Non Compliance- Returns**

Is there a system to identify non engagers?	
How does it work?	
Can an estimate of tax due be raised on non engagers?	
If so is there an appeal system?	
Can any estimate made be displaced by submitting a return and payment?	
If no appeal system can the estimated tax be enforced?	
Can it be enforced post appeal?	
Does enforcement require Court Action?	

### **Information on Non Compliance- Measurement**

Is there a system for measuring non compliance?	
How does it work?	
What is current debt outstanding?	
What is estimated amount of non engagers?	

**Information on Audit**

If the water rates are levied on anything other than a fixed annual charge is there a system to ensure that the tax paid by the user is correct?

## **Appendix vii**

### **Pre Interview Documentation Issued**

**Michael O Hanlon**

## Stamp Duty – Residential Property

### Customer Service Issues

Are customers advised of the tax applicable?	
How is it done?	
Is notice of due date given?	
How is it done?	
What methods of payment are available?	
Direct Payment?	
Credit Card/Debit Card?	
Instalment Payments?	

### Information on Non Compliance- Payments

Is there a follow up on outstanding /late payments?	
Is there a reminder system for outstanding/late payments?	
Is there a demand system for outstanding/late payments?	
Is there an interest charge for late payments?	
Is so what rate of interest per month?	
Can the debt be enforced?	
If it can be enforced is it by	
Collection by demand only?	
Court Action followed by collection?	
Where collection systems exist are they carried out by	
Revenue Staff?	
Third Party?	
If a third party –Who is it?	

### Information on Non Compliance- Returns

Is there a system to identify non engagers?	
How does it work?	
Can an estimate of tax due be raised on non engagers?	
If so is there an appeal system?	

Can any estimate made be displaced by submitting a return and payment?	
If no appeal system can the estimated tax be enforced?	
Can it be enforced post appeal?	
Does enforcement require Court Action?	

### **Information on Non Compliance- Measurement**

Is there a system for measuring non compliance?	
How does it work?	
What is current debt outstanding?	
What is estimated amount of non engagers?	

### **Audit- Residential and Commercial**

Is there an audit follow up?	
Any data on % of audits showing yield?	
Amount of yield?	

### **Exemptions- 2009 or 2008**

How many exempt transactions?	
Is there a figure for the total value of exempt transactions?	
Is there a figure for the total number of exempt transactions?	
Can they be analysed under the various exemptions?	

### **Electronic Filing**

Impact on Customer Service	
Impact on Compliance	
Impact on Audit	

Cost of Development	
Savings from development	

## **Appendix viii**

### **Copy of Survey Issued to Members of Commission on Taxation**

4 Knocknamona Park  
Letterkenny  
Co Donegal  
Ph-0749169464/ 087-2798230  
E [Mail- mfarrell@revenue.ie](mailto:mfarrell@revenue.ie)

Report of the Commission on Taxation.

Replacing Stamp Duty on Principal Private Residence with an Annual Property

Tax.

Dear

**Stamp Duty**

I am at present completing a thesis for a Masters in Accounting Degree at Letterkenny Institute of Technology. The subject of the thesis is the recommendation of the Commission to replace Stamp Duty on the purchase of a Principal Private Residence with an Annual Property Tax.

The proposal is of interest as it is at variance with the system used in peer countries, which apply a combined system that is - a Stamp Duty (Transaction Tax) and an Annual Property Tax.

I have studied the working papers of the Commission and it seems from these working papers that the position of the Commission changed between Jan 2009, when a combined system was favoured and April 2009, when it was decided to recommend replacing Stamp Duty on Principal Private Residences with an Annual Property Tax.

However, the papers give no insight into the reasons for the change in position.

There are four papers referred to between the working papers and the final Report, any or all of which could have influenced the outcome. I am interested in establishing what influenced the final outcome?

**Waiver of Annual Property Tax**

There is a proposed waiver for persons on low income. It is not clear whether this is intended to be an exemption or whether it is intended to be a deferred tax which could be collected at a later date, for example on the sale or transfer of the property. I am interested in gaining an insight into how the members of the Commission viewed this recommendation. Did they see it as an exemption or a deferred tax?

**Questionnaire**

I would be very grateful if you would take the time to complete the enclosed questionnaire and return to me. The questionnaire does not provide for a signature so confidentiality won't be compromised. It would be very helpful to me., if you would assist. I am enclosing a stamped addressed envelope for reply.

Yours sincerely,

Mary Farrell  
20<sup>th</sup> June 2010

Questionnaire.

**Stamp Duty-Principal Private Residence**

Q1. In making it's recommendation do you think that the Commission was influenced by

	Yes	No	Not Sure
National Competitiveness Council Submission?			
NESC paper on Housing 2004?			
NESC submission, quoted in the final report, on replacing stamp duty with an annual property tax?			
The OECD working paper which saw Stamp Duty as a distortionary Tax?			
Effect on property transactions?			
Effect on Labour Mobility?			
Other Considerations?			

If you think other considerations were a factor can you identify them?

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**Low Income Waiver of Annual Property Tax.**

Q2. In making it's recommendation do you think the Commission envisaged

	Yes	No	Not Sure
An exemption from APT for low earners?			
A deferred Tax for low earners?			
Neither of the above?			



## **Further Comments**

## **Appendix ix**

### **Analysis of Commission on Taxation Survey**

### Stamp Duty-Principal Private Residence

Q1. In making it's recommendation do you think that the Commission was influenced by

	Yes	No	Not Sure	No Answer
National Competitiveness Council Submission?	2	2	1	4
NESC paper on Housing 2004?	3	1	1	4
NESC submission, quoted in the final report, on replacing stamp duty with an annual property tax?	3	1	1	4
The OECD working paper which saw Stamp Duty as a distortionary Tax?	3	1	1	4
Effect on property transactions?	3	2	0	4
Effect on Labour Mobility?	4	1	0	4
Other Considerations?	4	1	0	4

If you think other considerations were a factor can you identify them?

Stable Revenue Base -3

### Low Income Waiver of Annual Property Tax.

Q2. In making it's recommendation do you think the Commission envisaged

	Yes	No	Not Sure	No Answer
An exemption from APT for low earners?	4	1		4
A deferred Tax for low earners?	3	1		
Neither of the above?	0			

**Further Comments :** A Combination of both - 3



